



**ZAMBIA
REVENUE
AUTHORITY**

**Working
To Serve You
Efficiently**



ANNUAL REPORT 2009

Letter of Transmittal



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 15th Annual Report of the Zambia Revenue Authority, covering the financial year 1st January 2009 to 31st December 2009.

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,

A handwritten signature in black ink, appearing to read 'Christopher L. Mundia', is placed below the 'Yours faithfully,' text.

Christopher L. Mundia, S.C.
Chairman of the ZRA Governing Board

30th June 2010

Vision

“To be a world class organisation recognised as a beacon for excellence, effectiveness, professionalism and efficiency.”

Mission

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

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Glossary

| | |
|---------|---|
| ACC | Anti-Corruption Commission |
| ADC | Asset Disposal Committee |
| ASYCUDA | Automated System for Customs Data |
| CCC | Customs Clearance Certificate |
| CIA | Certified Internal Auditor |
| CISA | Certified Information Systems Auditor |
| COMESA | Common Market for Eastern and Southern Africa |
| CPs | Cooperating Partners |
| CPI | Consumer Price Index |
| CSO | Central Statistical Office |
| CSR | Corporate Social Responsibility |
| DEC | Drug Enforcement Commission |
| EU | European Union |
| FISIM | Financial Intermediation Services Indirectly Measured |
| FTA | Free Trade Area |
| GDP | Gross Domestic Product |
| ICF | Investment Climate Facility |
| ICT | Information and Communication Technology |
| IMF | International Monetary Fund |
| ITAS | Integrated Tax Administration System |
| LAN | Local Area Network |
| LTO | Large Taxpayer Office |
| MCU | Mobile Compliance Unit |
| MoFNP | Ministry of Finance and National Planning |
| MTO | Medium Taxpayer Office |
| OECD | Organization for Economic Cooperation and Development |
| PAYE | Pay As You Earn |
| RAT | Revenue Appeals Tribunal |
| RTSA | Road Transport and Safety Agency |
| SADC | Southern African Development Community |
| SAP | Systems Applications Products |
| SMM | Senior Management Members |
| SMTO | Small and Medium Taxpayer Office |
| STO | Small Taxpayer Office |
| TAD | Taxpayer Appreciation Day |
| TARPS | Tax Administration and Refunds Processing System |
| TPIN | Taxpayer Identification Number |
| VAT | Value Added Tax |
| VSAT | Very Small Aperture Terminal |
| WAN | Wide Area Network |
| WCO | World Customs Organisation |
| WTO | World Trade Organisation |
| ZDA | Zambia Development Agency |
| ZFE | Zambia Federation of Employers |
| ZNBC | Zambia National Broadcasting Corporation |
| ZRA | Zambia Revenue Authority |
| ZRAIC | Zambia Revenue Authority Integrity Committee |

Corporate Profile

The Zambia Revenue Authority (hereinafter called the 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:

- assess and collect taxes, duties, levies and fees due to Government;
- ensure that all monies collected are properly accounted for and banked;
- 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.

Type of Taxes Administered

The main taxes collected by the Authority are as follows:

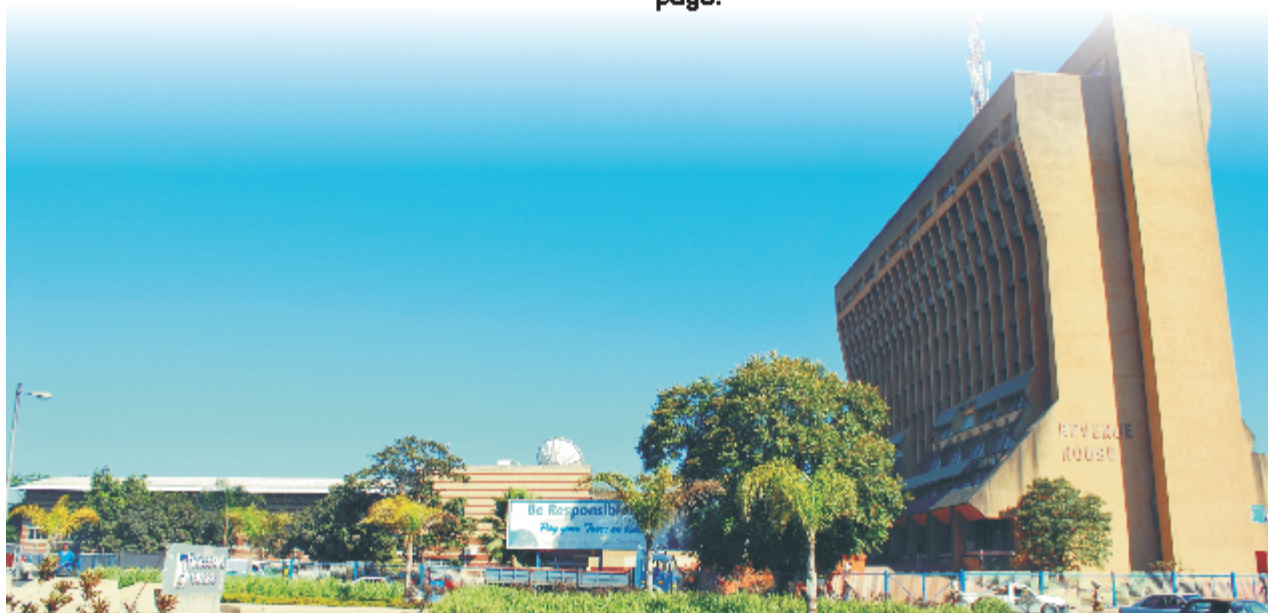
- Income Taxes;
- Property Transfer Tax;
- Mineral Royalty;
- Excise Duty;
- Carbon Tax;
- Value Added Tax (VAT);
- Customs Duty;
- Export Duty;
- Medical Levy;
- Motor Vehicle Fees.

Corporate Values

In performing its mandate, the Authority subscribes to the following corporate values:

- Integrity;
- Professionalism;
- Fairness;
- Equity;
- Courtesy;
- Goal orientation;
- Team work; and
- Value for money.

These values are reflected in the Code of Ethics that all employees of the Authority are expected to uphold. The Authority also has a Taxpayer Charter which outlines taxpayers' rights and obligations, as well as the level of service that the Authority has guaranteed to provide to its clients at all times. The Taxpayer Charter and taxpayer obligations are captioned on the next page.



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The Taxpayer Charter and obligations of the taxpayer

ZRA Service standards

| Service | Standard |
|---|--|
| Tax Registration | We undertake to complete the process within 3 days . |
| VAT Refund | We undertake to pay the refund within 30 days from the date of lodgement of a VAT refund claim . |
| Income Tax Refund | We undertake to pay the refund within 45 days of submission of lodgement of an income tax return. |
| Customs Refund (Duty Drawback, General, Estreated deposits) | We undertake to pay the refund within 30 days from the date of lodgement. |
| Customs Deposit Refund (except refund for estreated deposits) | We undertake to pay the refund within 48 hours of the submission of a refund claim. |
| Customs Declaration | We undertake to process a clean customs declaration within 1.5 days. |
| Tax Clearance Certificate | We shall issue a tax clearance within 48 hours upon receipt of an application. |
| Service Efficiency | We undertake to attend to clients within 20 minutes of their arrival at the Customer Service Centre. |
| 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. |
| Information | We undertake to provide clear information on tax matters . |
| Acknowledge comments and complaints | We undertake to acknowledge comments, complaints and queries within 5 working days of their receipt . |
| 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 . |
| Privacy | We shall treat tax matters with privacy and confidentiality . |
| Performance Reporting | We shall publish information about our performance against these targets four (4) times a year . |

Taxpayers' Obligations

| | |
|----|--|
| 1. | Cooperate with ZRA officers at all times. |
| 2. | Submit tax returns and pay taxes on time. |
| 3. | Provide honest and accurate information to ZRA, including current contact addresses. |
| 4. | Demand an official ZRA receipt on all payments. |
| 5. | Do not offer ZRA officers any payments other than those authorised by the law. |

Stakeholders

The key stakeholders, in the operations of the Authority, include the:

- Government of the Republic of Zambia;
- Zambia business community;
- Banks and other financial institutions;
- Other taxpayers;
- Tourists, travellers and traders crossing Zambia's borders;
- Cooperating partners including bilateral and multilateral agencies;
- Members of the Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), World Trade Organisation (WTO) and other countries or persons transacting business with Zambia or transiting goods through Zambia; and
- Other interest groups.



Christopher L. Mundia S.C.
Chairman



Dr. Caleb Fundanga
Vice Chairman



Mr. Elijah C. Banda S.C.
Member



Mrs. Gertrude M. Imbwae
Member



Mr. Likolo Ndalamei
Member



Mrs. M. S. Mwaanza
Member



Mrs. Fredah Luhila
Retired



Mr. Geoffrey Sakulanda
Member



Ms. Mwangala Zaloumis
Member



Mr. Justin Chisulo
Retired



Mr. Lishomwa Muuka
Board Secretary

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Senior Management



Mr. Chriticles Mwansa
Commissioner General



Mr. Muyangwa Muyangwa
Commissioner
Customs Services



Ms. Nana Mudenda
Commissioner
Corporate Services



Mr. Wisdom Nhekairo
Commissioner
Domestic Taxes



Ms. Inonge Wambulawae
Chief Internal Auditor



Dr. Samuel Bwalya
Director Research &
Planning



Mrs. Roselyne Raelly
Director Human Resource



Mr. Kabaye Mwale
Director Finance

Chairman's Statement

It is with pleasure that I present the Zambia Revenue Authority's Report for the fiscal year ended 31st December 2009. This Report is the first one since the Governing Board of Zambia Revenue Authority elected me as its Chairman.

The year under review was a difficult one having been faced with the worst economic recession that engulfed the entire world and perhaps the worst one in living memory. In spite of the difficulties experienced by all economies of the world, large and small, the Zambian economy's performance was highly impressive and above the projected target of 5 percent real growth rate.

The Gross Domestic Product (GDP) grew from K55,078.8 billion in 2008 to K64,326.1 billion in 2009, thereby posting the real GDP growth of 6.3 percent in 2009 compared to 5.7 percent in 2008. The strong economic growth outturn was attained in spite of the economic shocks of the global financial crisis, as most economic sectors exhibited relative resilience and registered positive growth in 2009.

The Mining Sector contributed most of the positive growth in the economy; particularly metal mining which grew by 15.8 percent in 2009 compared to 2.5 percent the previous year and was followed by the Construction Sector with 15.5 percent growth in 2009 compared to 8.7 percent in 2008. Meanwhile, the Electricity, Gas and Water Sector registered a growth rate of 8.6 percent from negative 1.2 percent in 2008.

The Primary Sector grew by 10.5 percent in 2009 compared to 2.5 percent the previous year. Growth in the Secondary Sector was highly impressive as it almost doubled from 4.7 percent in 2008 to 9.4 percent in 2009. The Services Sector by its very nature was more adversely affected by the global recession and growth declined to 3 percent in 2009 from 7.1 percent in 2008. The Financial Sector was the most adversely affected as it posted a growth rate of 5 percent in 2009 compared to 8.7 percent in the previous year.

On the overall, the impact of the Global Recession on the real sector of the economy was not as dramatic as was experienced in developed countries, in spite of the Mining Sector having been adversely affected with company closures or suspensions of operations and the laying off of workers. The macro economic fundamentals, especially the exchange rate and inflation, experienced modest negative effects arising from the world recession with macro economic trends deteriorating in the first quarter before gradually recovering to their pre-crisis levels in the third and fourth quarters of 2009.



The strong and sustained real growth rates create an enabling environment for strengthening revenue administration capabilities as well as evaluating the productivity and responsiveness of the revenue system to changes in the economy. Although the overall growth of the economy remained robust in the wake of the world wide recession, the public revenue system was adversely affected with revenue collections as ratio of GDP falling to 15 percent in 2009 compared to 18 percent recorded in 2008. The decline in the revenue collections was largely on account of reduced collection of trade taxes and duties as imports declined significantly to US\$3,792 million in 2009 from US\$5,061 million in 2008. The decline was as a result of reduced demands for imports by local firms (mining companies) which were forced to scale down on their investments and operations. However, the performance of inland tax revenues was impressive and responsive to positive growth rates reported in the real sectors of the economy indicating that the overall revenue system was strong and tax administration remained flexible and innovative enough to capture shifts in the revenue base in 2009.

I am happy to report that the Governing Board remains resolute and committed to making further improvements to the revenue system by supporting the implementation by Management of strategic and innovative approaches aimed at promoting greater tax compliance, sharpening tax administration instruments and capabilities and improving service delivery. Such efforts are currently being pursued through ongoing tax administration reforms and modernisation of customs operations at the Country's major border posts. This commitment and vision can only be realised when all stakeholders and Cooperating Partners put in their best to support these reforms and share the idea that tax administration is invariably tax policy, and strengthening tax administration is immensely important to building the

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Country's capability to finance its development programmes.

In this regard, my Board recognises and cherishes the support that ZRA has received from the Royal Norwegian Government in the area of capacity building in the auditing of the mining companies and other specialised industries. The Board and Management of the Authority remain resolute in their efforts to further develop and utilise the acquired competencies to enforce revenue laws to ensure that all revenue due to Government are properly assessed, collected and accounted for in accordance with the legal provisions.

My Board, subject to funding being available, intend to ensure that the necessary infrastructure, particularly at Border Posts, are available and that transport which has also been a vexing issue is resolved if officers are to efficiently carry out their duties. The Board and Management welcome the Government's intention to revisit and reflect on the funding to the Institution in line with precedents obtaining in other Southern African Development Community (SADC) Countries as opposed to the current "Aided Institution" status.

I wish to commend Zambia Revenue Authority Workers' Union and Management for maintaining industrial peace and harmony during the period under review. I wish equally to commend the staff generally for their hard work under fairly difficult conditions actuated mainly by worldwide economic shocks.

My Board looks forward to a day when all its plans and expansion programmes would be achieved for the good of our Nation. I would also like to thank the Honourable Minister of Finance and National Development for having supported my Board throughout the year, the Cooperating Partners for their financial support and indeed the compliant taxpayers for their various support to the Authority in fulfillment of my Board's mandate to the people of Zambia.

I look forward to the same support in the coming year.



Christopher L. Mundia, S.C.
CHAIRMAN

Commissioner General's Statement

I am pleased to present an overview of the operations of the Zambia Revenue Authority, its audited financial statements, and an overview of the performance of the revenue system in this 15th Annual Report of the Authority for the fiscal year ended 31st December 2009.

During the year under review the Authority continued to implement broad based tax administration aimed at reorganising the tax administration structures and systems from one that was functionally based on tax-type criterion to one that is organised based on an integrated taxpayer segmentation model. I am glad to report that significant progress in implementing tax administration reform initiatives were recorded during the year under review. Among the milestones achieved included the establishment and launch of a fully-functional Large Taxpayer Office (LTO), which also houses a specialised mining tax unit that is responsible for managing tax affairs of all mining companies in Zambia. The Small and Medium Taxpayer office was established and appropriately staffed and training and other capacity building programmes to sharpen skills and capabilities were commenced and are currently on-going. Efforts have now been redirected to business process re-engineering to ensure that these reforms yield tangible benefits to the Authority and taxpayers in terms of quality of service delivered and reducing the administration and compliance costs.

In 2009, management made strides to implement measures aimed at reducing the cost of compliance by among others making alternative and more efficient electronic payment systems more available and acceptable for settling tax payments with the Authority. In addition to the Real Time Gross Settlement System (RTGS), the Authority worked with commercial banks to develop electronic and internet-based tax payment systems in 2009 and will fully be implemented for payment of customs duties and other taxes in 2010 and to cover payment of all taxes by 2011. These achievements provide sound basis for launching additional reforms aimed at enhancing organisational effectiveness and capabilities to enforce tax laws, while also providing tax payment options that are less costly and convenient to taxpayers. These achievements are complimented by the unwavering commitment to improve service delivery and enhance public confidence in the revenue system. In a bid to further improve service delivery and meet service standards committed in the Taxpayer Charter especially on payment of tax refunds, the Authority developed a tax refund management systems with full implementation expected to commence in 2010. This system will enable the Authority to expedite payments of tax refunds and move towards service excellence in the area of tax refunds.

In the same vein, management believes that creating and sustaining public confidence in the revenue



system requires implementing a penalty regime that sufficiently deters tax non-compliance and such a regime should be accompanied by initiatives and programmes that encourage and rewards compliant taxpayers. In respect of the latter, the Authority in 2009 escalated the implementation of the corporate social responsibility policy and held its first ever Taxpayer Appreciation Day in April 2009. This event has been promulgated as an annual calendar event at which the Authority and Government will recognise selected taxpayers for their compliance and contribution to financing of development programmes through the tax system. Rewarding taxpayer compliance and improving taxpayer experiences whenever they interact with us is important in creating a positive tax culture among taxpayers and invariably raise compliance and revenue collection levels. Other reward initiatives or schemes include the expedited customs clearance for accredited clients and fast-track processing of tax refunds for large taxpayers. These initiatives are important in encouraging voluntary compliance, building and sustaining public confidence in the revenue system and form part of the strategy to strengthen stakeholder engagement in revenue administration.

The performance of the Authority is mostly judged in terms of revenue collection and service delivery. In 2009, the Authority collected tax revenue amounting to K9, 678.6 billion against the Parliament target of K10, 215.4 billion thereby registering a deficit of K536.8 billion or 5.3 percent. The seemingly unfavourable revenue performance was attributed to the adverse impact of the global economic crisis on trade volumes that plummeted by 25 percent. However, the negative performance of trade revenues was partially moderated by the favourable performance in domestic tax collections which exceeded its target by 12 percent in the year under review. This favourable performance resulted from strategies implemented to reduce default by taxpayers and improved resource allocation to achieve greater effectiveness and efficiency in tax administration.

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I therefore wish to commend management and staff for putting in their best to implement innovative compliance strategies that enabled the Authority to mitigate the adverse effects of the global economic crisis on revenue collections to support government programmes. I also remain appreciative of the unwavering support and guidance received from the Minister of Finance and National Planning and to the committed leadership of the Governing Board. Finally, I wish to sincerely thank all taxpayers who discharged their tax obligations honourably without being coerced.



Chriticles P. Mwansa
COMMISSIONER GENERAL

Overview of Performance

Performance of the corporate plan

The evaluation of the performance of the Authority in the year under review can be examined by first looking at how best the planned activities were executed in 2009. Planned activities for 2009 are summarized in a three-year corporate plan, ending 2009. Since this review coincides with the end of the corporate plan, it is important to provide a brief overview of the performance for the year under review and for the entire corporate plan. The following are the strategic objectives (SO) of the corporate plan ending 2009:

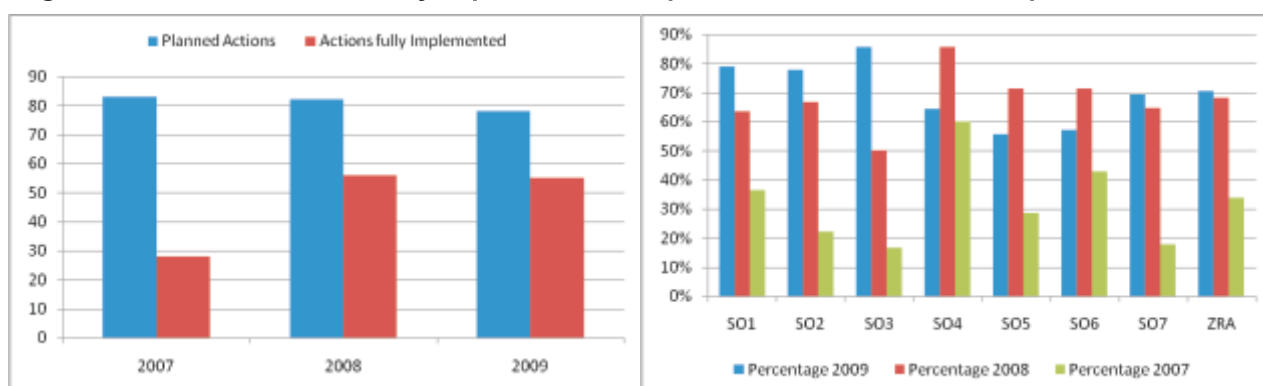
1. To assess, charge, levy and collect all revenue due to the Government through effective enforcement and compliance strategies.
2. To design and implement business strategies that will ensure that all revenue collected is as soon as reasonably practicable credited to the Treasury.
3. To increase and sustain the growth and productivity of revenue by developing systems and procedures that encourages investment and growth of the economy.

The extent to which these objectives have been achieved can be assessed by (a) analysing how many and how well actions under each of the objectives were implemented and (b) how the identified risks were managed. Figure 1 shows the number of actions fully implemented against planned actions for the period of the corporate plan.

Based on the analysis above, the following commentaries can be made on the performance of the corporate plan:

- Implementation of planned actions improved significantly from 33.7 percent in 2007 to 68.2 percent in 2008 and 70.5 percent in 2009. This improvement is largely on account of improved monitoring and evaluation and resource allocation;
- About 29 percent of the planned actions were not fully implemented on account of funding shortfalls; and

Figure 1: Number of actions fully implemented compared to the total number of planned actions



4. To improve performance by attracting, retaining and motivating human resource.
5. To promote good governance through the design and implementation of policies, systems and procedures.
6. To improve our service delivery by implementing the risk management process.
7. To improve operational efficiency by creating, strengthening and streamlining inter-institutional linkages and partnerships.

- An interim corporate plan has been developed to ensure that actions not fully implemented during the 2006 - 2009 actions plans are completed before commencing the implementation of the next three-year corporate plan.

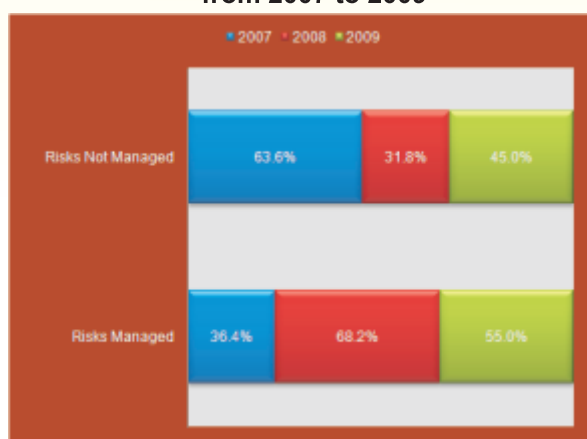
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Risk Management

The implementation of the corporate plan is aided by the implementation of an enterprise risk management framework. All planned actions in the corporate plan are subjected to risk analysis that identifies risks that need to be managed in order to ensure the smooth implementation of the corporate plan. Identified risks also have associated treatment options that are implemented and monitored alongside with the corporate plan.

Figure 2 below shows the percentage of corporate risks that were managed from 2007 to 2009.

Figure 2: Corporate risks managed from 2007 to 2009



The data indicates that:

- Consistent with the performance of the corporate plan, risk management in respect of the corporate plan improved from 36.4 percent in 2007 to 68.2 percent and 55 percent in 2008 and 2009 respectively;
- There was a fall in the number of risks adequately managed in 2009 largely due to shift in resources towards managing new risks that emerged with global economic crisis.
- Efforts to improve the implementation of operational risk management in the 2010 action plan have been channelled through the business process re-engineering component of the modernisation programme.

Revenue Performance

The effectiveness and efficiency of revenue administration is largely assessed in terms of service delivery, resource allocation, cost containment, compliance management and revenue collection. Of these, revenue collection is perhaps the most important followed by service delivery. For the period of the corporate plan, the Authority managed to increase revenue collection from 17.9 percent in 2006 to 18.2 percent of GDP in 2008. However, revenue performance declined to 15 percent in 2009 due to the

adverse effects of the global economic crisis on international trade taxes. The impact of the crisis on revenue collection was ameliorated by strategies to enforce tax compliance on domestic transactions and ensuring that revenue from income taxes exceeded its revenue target as explained in the subsequent sections of the report.

Business Process Improvements

Computerisation

In 2009, the Authority continued with its computer replacement programme and purchased 120 computers to replace old and dysfunctional computers at various stations across the country. Marked improvements were also made in data and voice communication across stations through the use of optic fibre technology and Wide Area Networks (WAN). A wireless link for the One-Stop-Border-Post (OSBP) facility was installed at Chirundu Border Post while Local Area Networks (LAN) and Very Small Aperture Terminal (VSAT) installation was initiated in some stations.

The Authority continued to use the centralised Automated System for Customs Data (ASYCUDA++) software which enabled outer stations to access the System remotely. This resulted in improved management of transit goods, data management, and centralised monitoring of customs clearance activities at all major border posts.

In 2009, the Authority began the upgrade of the Systems Applications Products (SAP) software and the implementation of Human Capital Management (Human Resources) and Payroll and Workflow Modules which were not functional in the earlier versions of SAP. This upgrade has enabled the Authority to transit from manual procedures that induces inconsistencies in financial and resource management to a more computerised and harmonised financial, personal and materials management platform.

Customs Clearance

In a bid to improve service delivery and reduce compliance costs associated with delays in customs clearance, the Authority engaged stakeholders on initiatives that should be implemented to improve customs clearance time. The enhanced electronic motor vehicle Customs Clearance Certificate (CCC) security features were improved to ensure that information displayed on it was accurate. The enhancement provided for electronic confirmation of the CCC listing to the Road Transport and Safety Agency (RTSA) with a further option for RTSA to have direct access to the CCC folder in order to make its own confirmations. The ASYCUDA-based issuance of CCC was implemented at several border posts, and

the initiative helped to curb fraud related to the issuance of manual CCCs and greatly improved motor vehicle registration time for importers.

Customer service and staff Integrity

The Authority is committed to improve customer service, both by improving business processes, attitude and professionalism of staff. To achieve this goal, the Authority developed a service charter and created the Zambia Revenue Authority Integrity Committee (ZRAIC). The Committee is charged with the responsibility of promoting integrity and professionalism among staff, and to receive complaints and ensure all complaints of unethical nature and those relating to unsatisfactory service delivery are addressed and rectified.

As shown in Figure 3 a total of 217 comments and complaints were received by the Authority through its customer feedback mechanism in 2009, compared to 17 received in 2008 when the feedback mechanism was launched. Of these submissions, 173 were complaints about service and conduct of staff and taxpayers while the rest were complements and suggestions on how service can further be improved. Complaints of a criminal nature, such as corruption, tax

evasion and fraud were referred for investigation and action.

It is encouraging to note the increase in the number of submissions being received through suggestions boxes mounted at all ZRA offices across the country. The appointment and training of ZRAIC focal point persons at all ZRA offices and border posts have ensured that all complaints are confidentially managed and channelled to the ZRAIC for attention and action.

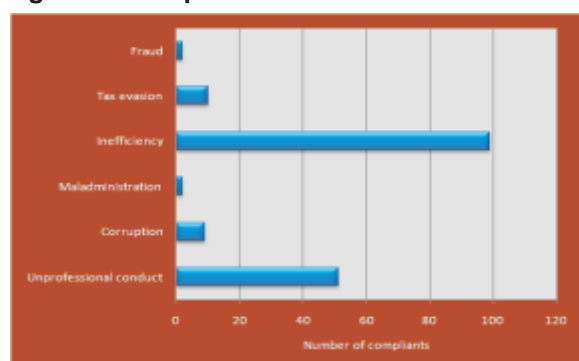
In 2009, the Authority held its first ever taxpayer appreciation programme in accordance with its corporate social responsibility programme. This was a major milestone in fostering stakeholder engagement and implementing an innovative reward system aimed at encouraging voluntary tax compliance. Based on a rigorous selection criteria, the Authority identified the most compliant taxpayers to receive various awards at a colourful taxpayer appreciation event which was graced by the Republican President. This occasion has been pronounced as an annual calendar event.

Tax Policy Support to the Government

In 2009, the Authority continued to provide policy support to the Government in several areas of tax policy formulation and analysis. The Authority provided strategic tax policy information to Government, through the Ministry of Finance and National Planning, and directly through different committees of Parliament.

The Authority submitted ten tax administration measures aimed at strengthening tax legal instruments and administration. Tax policy and administrative changes approved by Parliament in the 2009 budget are summarised in Box 1.

Figure 3: Complaints submitted to ZRA in 2009



BOX 1: Tax policy and administrative changes approved by Parliament in the 2009 budget**Direct Taxes**

- Increasing Advance Income Tax (AIT) from three percent to six percent.
- Excluding interest accruing on loans from related parties from current liabilities for purposes of Property Transfer Tax if they are not at arms' length in accordance with the provisions under thin capitalisation.
- Change the taxation of qualifying gratuities so that income equivalent to the annual exempt income under PAYE is tax free (taxed at zero percent) and the balance be taxed at a flat rate of 25 percent.
- Increasing the exempt portion for terminal benefits from K20 million to K25 million.
- Increasing the allowable pension contribution from K135, 000 per month to K155, 000 per month.
- Increasing exempt threshold for PAYE from K700, 000 to K800, 000 per month for PAYE.
- Tax credit for persons with disabilities raised from K600, 000 to K900, 000 per annum or K75, 000 per month.
- Increasing the period for carry forward of losses for companies in the energy sector, in particularly hydro and thermal (except wood) power generation from five years to ten years.
- Abolishing windfall tax which was introduced in 2008 for the mining sector.
- Allowing 100 percent capital allowance deduction for the mining sector.
- Classifying hedging income arising from mining operations as part of mining income so that it is taxed under the mining tax regime.

Value Added Tax

- Zero rating windmills and maize dehuller.
- Zero rating some agricultural equipment and spares.
- Extending the deferment scheme to include copper and cobalt concentrate.
- Increasing the VAT refund period for exploration companies to seven years.

Customs and Excise

- Removing customs duty on vegetable oil.
- Reducing excise duty on clear beer from 75 percent to 60 percent.
- Removing customs duty on gypsum.
- Reducing excise duty on heavy fuel oils from 30 percent to 15 percent.
- Removing customs duty on packaging materials (paper board).
- Removing duty on gray fabric including loomstead specially imported for further processing in the textile.

Major Constraints encountered in 2009

The Authority encountered several constraints and challenges during the year under review. Some of these are discussed below.

The Global Economic Crisis

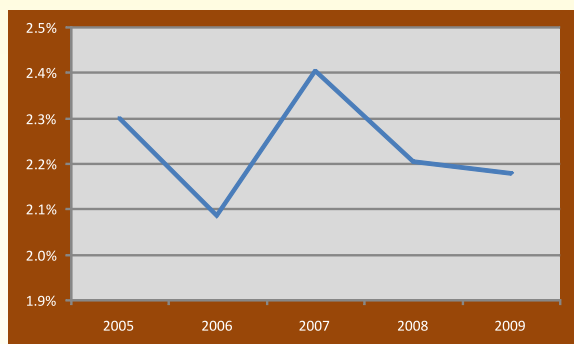
The global economic crisis had an adverse impact on the economy and consequently on revenue collection. The impact was mainly through its effects on trade and financial flows including Portfolio and Foreign Direct Investments. The crisis generated a series of macroeconomic imbalances, raising the level of inflation and interest rates in the economy. The local currency (Zambian kwacha) depreciated against the major international currencies, and mining companies scaled down their investments, production and employment as international demand for commodities plummeted. Some mining units closed down leading to job losses. Secondary industries supporting the mines and tourism sectors were also adversely affected.

Consequently, the total exports from Zambia to the rest of the world dropped by 17 percent from US\$5,098.69 million in 2008 to US\$4, 241.01 million in 2009, while imports declined by 25 percent from US\$5,060.48 million to US\$3, 792 million. The fall in imports was a result of the large depreciation of the Kwacha against the major currencies which induced a corresponding fall in trade revenues collected in 2009.

Resource Constraints

Since the inception of ZRA, funding support as a proportion of revenue collected gradually increased, reaching its peak of five percent of revenue collected in 1999. Thereafter, funding support to the Authority steadily declined and has averaged 2.2 percent (see Figure 4). Dwindling financial resources affected the Authority's ability to adequately undertake tax administration functions and investment and maintain operational and physical infrastructure.

Figure 4: Government funding as a ratio of revenue collection, 2005 to 2009



Spending additional financial resources on acquisitions of new infrastructure and equipment, or the upgrade and maintenance of existing infrastructure is critical in ensuring a robust tax administration system. Improved funding will enable the Authority to further strengthen revenue administration, adequately respond to the positive trends in the economy and increase revenue collection. These funds should finance efforts to curb smuggling and corruption, increase VAT collections by increasing VAT compliance in the cash economy. It will also strengthen tax audits and debt collection, design and implement an effective but simplified tax regime for small and informal business operators.

Tax Concessions and Trade Protocol Measures

Fiscal concessions erode the tax base and lower revenue collections, at least in the immediate term. For example, trade tax concessions and tariff reductions including SADC and COMESA trade protocols have had an adverse effect on trade revenue collections estimated at K1, 492.96 billion in 2009. This is exacerbated by domestic concessions and exemptions offers on general and specific terms. It appears that Government will need to review the country's tax policy and particularly the system of fiscal concessions. Government may also consider abolishing unproductive fiscal incentives (tax holidays) in order to improve revenue collection and administration.

Information Communication and Technology Limitations

Improving the efficiency and effectiveness of tax and customs administration requires investment and enhanced use of modern information and communication technologies. As the economy grows and the number of taxpayers and transactions for tax purposes increases, manual procedures have become ineffective and need to be replaced with modern electronic applications. Sub optimal functionality of the current Integrated Tax Administration System (ITAS) and difficulties in tapping on the optical fibre technology due to its limited geographical coverage and proximity inhibited the Authority's efforts to modernise its business processes and increase operational efficiency.

In 2009, the Authority started to consider alternative tax administration systems that would deliver marked improvements in tax administration and information processing and management. Significant progress was made towards sourcing funds to finance the acquisition of a new tax administration system. The Authority successfully engaged the Investment Climate Facility for Africa (ICF) to finance the development and acquisition of an integrated tax administration system to replace ITAS.

The Authority began to implement initiatives aimed at fully utilising the optical fibre network and improvements in national payment systems. This will enhance customs clearance and provide more convenient and less costly means for taxpayers to settle their tax obligations. These initiatives started in 2009 and are expected to become fully functional in 2010.

Taxation of International Transactions

As the world economy becomes more global and technologically advanced, revenue administration becomes more challenging as it requires increased capabilities to track international transactions more effectively for tax purposes. The Authority continues to face the challenges in tracking and auditing tax accounts of transnational corporations, detecting and counteracting tax evasion schemes through transfer pricing, among others. In 2009, efforts were initiated with support from the Royal Norwegian government to initiate capacity development programmes, with an emphasis on enhancing existing skills to more competently audit mining companies.

Revenue Performance in 2009



Economic Performance

Gross Domestic Product

The year 2009 saw an improvement in the performance of the economy, despite the negative effects of the global economic crisis. Latest estimates indicate that, in nominal value terms, the Gross Domestic Product (GDP) grew from K55, 078.8 billion in 2008 to K64, 326.1 billion in 2009. In real terms, the economy grew by 6.3 percent compared to 5.7 percent attained in 2008. Sectors which grew the most were: Mining and Quarrying (despite a large fall in nominal terms) at 15.8 percent; Construction at 15.5 percent; Electricity, Gas and Water at 8.3 percent; Agriculture, Forestry and Fishing at 7.1; and Community, Social and Personal Services at 6.8 percent. Financial Institutions and Insurance grew at the rate of 5 percent while Real Estate and Business Services grew at 3.1 percent just like the Transport, Storage and Communications sector. Wholesale and

Retail Trade grew at 3 percent while Restaurants, Bars and Hotels registered a negative growth of 14.5 percent.

In terms of sector shares of GDP, Wholesale and Retail Trade; and the Agriculture, Forestry and Fishing Sectors had the largest share accounting for 15.9 percent and 12.6 percent respectively. The Construction and Manufacturing Sectors shares were at 12.4 and 9.5 percent respectively. Other sectors contributed to GDP as follows: Mining and Quarrying (8.9%); Transport Storage and Communications (8.9%); Community, Social and Personal Services (8.6%); Real Estate and Business Services (8.1%); Financial Institutions and Insurance (7.3%); Electricity, Gas and Water (2.4%); and Restaurants, Bars and Hotels (2.3%). Table 1 below shows sector growth and shares in 2009 and 2008.

Table 1: Growth by kind of Economic Activity and Industry Shares of GDP in 2009 and 2008

| Kind of economic activity | Percentage growth | | Percentage share in GDP | |
|---|-------------------|-------|-------------------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| Wholesale and Retail Trade | 3 | 2.5 | 15.9 | 16.4 |
| Agriculture, Forestry and Fishing | 7.1 | 2.6 | 12.6 | 12.5 |
| Construction | 15.5 | 8.7 | 12.4 | 11.4 |
| Manufacturing | 2.5 | 1.8 | 9.5 | 9.9 |
| Mining and Quarrying | 15.8 | 2.5 | 8.9 | 8.2 |
| Transport, Storage and Communications | 3.1 | 15.8 | 8.9 | 9.1 |
| Community, Social and Personal Services | 6.8 | 11.7 | 8.6 | 8.6 |
| Real Estate and Business Services | 3.1 | 3.1 | 8.1 | 8.4 |
| Financial Institutions and Insurance | 5 | 8.7 | 7.3 | 7.3 |
| Electricity, Gas and Water | 8.6 | (1.2) | 2.4 | 2.4 |
| Restaurants, Bars and Hotels | (14.5) | 5 | 2.3 | 2.8 |
| Total G.D.P. at Market Prices | 6.3 | 5.7 | 100 | 100 |

Note: GDP at market prices also includes net taxes on products and Financial Intermediation Services Indirectly Measured (FISIM)
Source: CSO

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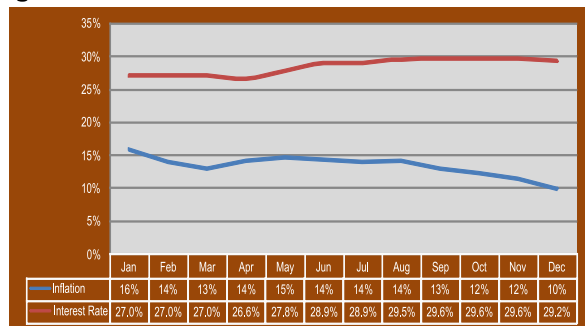
Inflation

The year under review started with a year-on-year inflation rate of 16 percent which fell steadily (see Figure 5 below) to close the year at 9.9 percent against the year-end target of 10 percent. Of the overall inflation rate of 9.9 percent recorded in December 2009, food products accounted for 4.0 percentage points while non-food items accounted for a total of 5.9 percentage points. The decline in the year-end inflation was mainly due to the reduction in food inflation and relative stability of fuel prices during the year under review.

Interest Rate

Since the start of the global economic crisis in August 2008, commercial bank lending rates increased gradually from 27.0 percent in January to 29.2 percent in December 2009 (see Figure 5). This increase was attributed to a fall in foreign participation in the money market (Treasury Bill and Bond markets) and reduced liquidity of commercial banks for onward lending to the private sector as portfolio inflows plummeted in the aftermath of the financial and economic crisis.

Figure 5: Inflation and interest rate trend in 2009

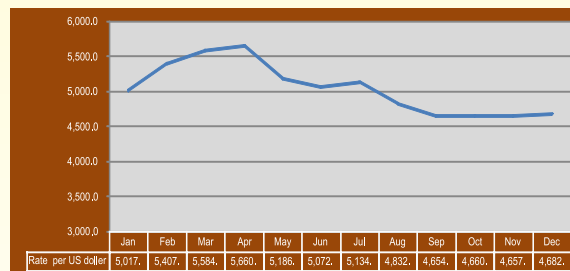


Source: Bank of Zambia

Exchange Rate

The fall in copper earnings reversed the positive long-term trend in the local exchange rate, with the Kwacha continuing to depreciate throughout the first quarter of 2009. However, the local currency began to appreciate in the second and third quarter reaching about K4,654 in September and was maintained at this level throughout the fourth quarter (see Figure 6). The annual average exchange rate was K5,044 per US Dollar in 2009 compared to K3,746 in 2008.

Figure 6: Exchange rate trend in 2009



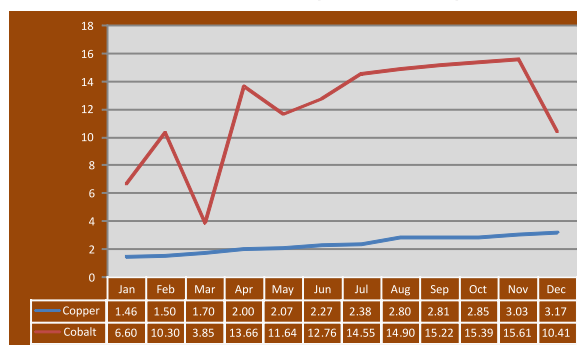
Source: Bank of Zambia

Commodity Prices

International commodity prices especially those of copper and oil affect the performance of the economy and revenue collection. The average price of copper was US cents 233.71 per pound in 2009 compared to US cents 315.39 per pound in 2008, while the average price of cobalt fell to US\$12.07 in 2009 from US\$31.18 per pound in 2008. The same was true for crude oil whose average price fell to US\$ 61.32 per barrel from US\$ 94.53 per barrel in 2008.

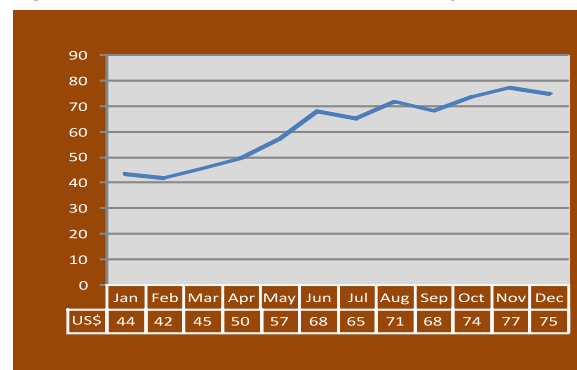
Figure 7 depicts trends in copper and cobalt prices while Figure 8 depicts trends in the prices of crude oil in 2009. Prices of copper and crude oil depicted an increasing trend during the year while cobalt prices remained fairly stable, especially in the last half of the year.

Figure 7: Price of copper and cobalt in 2009 (US\$/pound)



Source: Bank of Zambia

Figure 8: Price of crude oil in 2009 (US\$/barrel)



Source: Bank of Zambia

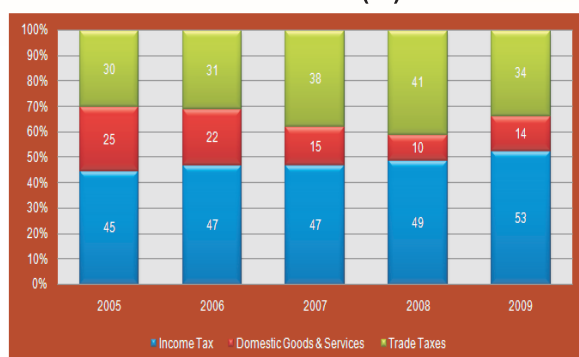
Operational Performance

Structure of the revenue system in 2009

Income taxes remain the major source of tax revenue for Government and account for almost 50 percent of the total tax revenue collected in 2009 (see Figure 9). Income tax contributed 53 percent of the total revenue, followed by trade taxes (34 %) and domestic goods and services taxes about 14 percent. PAYE accounted for 57.6 percent of the total income tax collected in 2009.

Trade taxes were the second major source of tax revenue in 2009, although its contribution decreased to 34 percent in 2009 from 41 percent in 2008. Trade taxes reported in Figure 9 include collection of import VAT, which accounted for 66.6 percent of total trade revenue in 2009.

Figure 9: The tax structure in Zambia, 2005 - 2009 (%)



Taxes from domestic goods and services (consumption taxes) accounted for 14 percent of total revenue in 2009 compared to 10 percent in 2008. Excise duty accounted for 76.9 percent of consumption tax revenue collection and net domestic VAT accounted for the remainder. It should be noted here that domestic VAT collection are largely applied towards payment of both domestic and import input VAT claims.

This analysis suggests that the country's revenue system is heavily dependent on income taxes and trade taxes, and efforts both in terms of tax policy and tax administration need to be implemented in order to increase the share of consumption tax revenue in total tax revenue.

Tax Revenue Collection in 2009

During the year, the Authority collected total revenue amounting to K9, 678.6 billion against a Parliament target of K10, 215.4 billion, thereby registering a deficit of K536.8 billion or 5.3 percent below target. Table 2 shows the performance of the various taxes against their targets during the year. The total revenue collected in 2009 was K4.1 billion below that collected in 2008. The decrease in revenue collection was largely influenced by the global economic crisis.

Table 2: Tax revenue performance in 2009 (K' billions)

| Tax Types | 2009 Actual outturn | 2009 Parliament Target | Variance of actual vs target | Percent variance of target |
|--------------------------------------|---------------------|------------------------|------------------------------|----------------------------|
| Total revenue | 9, 678.6 | 10, 215.4 | (536.8) | (5.3) |
| Tax revenue | 9, 660.1 | 10, 191.2 | (531.1) | (5.2) |
| Income Tax | 5, 072.6 | 4, 529.8 | 542.8 | 12.0 |
| Company Tax | 1, 375.8 | 1, 104.0 | 271.8 | 24.6 |
| Personal Income Tax | 3, 461.9 | 3, 271.4 | 190.5 | 5.8 |
| <i>Pay As You Earn (PAYE)</i> | 2, 923.9 | 2, 692.5 | 231.4 | 8.6 |
| <i>Withholding Tax</i> | 538.0 | 578.9 | (40.9) | (7.1) |
| Mineral Royalty | 234.9 | 154.4 | 80.5 | 52.1 |
| Domestic Goods & Services | 1, 330.6 | 1, 204.9 | 125.7 | 10.4 |
| <i>Excise Duty</i> | 1, 023.4 | 1, 659.2 | (635.8) | (38.3) |
| <i>Domestic VAT</i> | 307.1 | (454.3) | 761.4 | 167.6 |
| Trade Taxes | 3, 257.0 | 4, 456.5 | (1, 199.6) | (26.9) |
| <i>Import VAT</i> | 2, 168.4 | 3, 004.1 | (835.7) | (27.8) |
| <i>Import Duty</i> | 1, 072.0 | 1, 310.8 | (238.8) | (18.2) |
| <i>Export Duty</i> | 16.5 | 141.6 | (125.1) | (88.4) |
| Non-tax revenues | | | | |
| <i>Medical Levy</i> | 12.6 | 13.3 | (0.7) | (5.3) |
| <i>Motor Vehicle Fees</i> | 5.9 | 10.8 | (4.9) | (45.4) |

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The global economic crisis adversely affected the trade tax revenue base. In recognition of this situation, Government revised the target downwards from K10, 215.4 to K9, 600.0 billion. The revision meant that revenue performance monitored against the revised target recorded a surplus of K78.6 billion or 0.8 percent above this target. The surplus was largely attributable to higher collections from income taxes.

Revenue collection as ratio of GDP

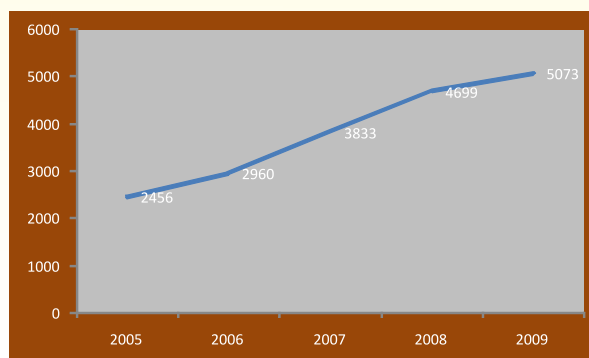
The share of tax revenue in GDP measures the responsiveness of the tax system to growth in the economy. In 2009, tax revenue as a share of GDP decreased to 15.0 percent from 18.0 percent in 2008. In particular, income tax as a percentage of GDP declined marginally to 7.8 percent in 2009 from 8.7 percent in 2008, while trade taxes declined to 5.1 percent from 7.5 percent. However, taxes on domestic goods and services increased to 2.1 percent from 1.7 percent in 2008 (see Table 3). Analysis of performance of each tax-type is provided below.

The following section discusses revenue performance against the Parliament target by tax type.

Income Tax

Income tax collections have continued to increase since 2005 as depicted in Figure 10.

Figure 10: Trend in income tax collections, 2005 to 2009 (K' billions)



In 2009, income tax revenue collections amounted to K5, 072.6 billion against the Parliament target of K4, 530.0 billion, thereby posting a 12 percent performance above the target. Of this amount, K1, 375.8 billion was company tax (27.1 percent of income tax revenue), K2, 923.9 billion was PAYE (57.6 percent), K538.0 billion was withholding tax (10.6 percent) and K234.9 billion was mineral royalty (4.6 percent).

Table 3: Tax revenue contribution as percentage of GDP, 2009 and 2008

| Tax Type | 2009 | 2008 |
|--------------------------------------|------------------|------------------|
| Total revenue | 15.0 | 18.0 |
| Tax revenue | 15.0 | 18.0 |
| Income Tax | 7.8 | 8.7 |
| Company Tax | 2.1 | 2.5 |
| Windfall Tax | n/a | 0.2 |
| Pay As You Earn (PAYE) | 4.5 | 4.7 |
| Withholding Tax | 0.8 | 0.8 |
| Mineral Royalty | 0.4 | 0.4 |
| Domestic Goods & Services | 2.1 | 1.7 |
| Excise Duty | 1.6 | 2.5 |
| Domestic Value-Added Tax (VAT) | 0.5 | (0.8) |
| Trade Taxes | 5.1 | 7.5 |
| Import VAT | 3.4 | 4.9 |
| Import Duty | 1.7 | 2.2 |
| Export Duty | 0.0 | 0.4 |
| Medical Levy | 0.0 | 0.0 |
| Total GDP | 64, 326.1 | 55, 078.8 |
| Revenue as % of GDP | 15.0 | 18.0 |

Note: The GDP estimate reported in 2008 was K53, 706.0 billion (before revision to K55, 078.8 billion in 2009)

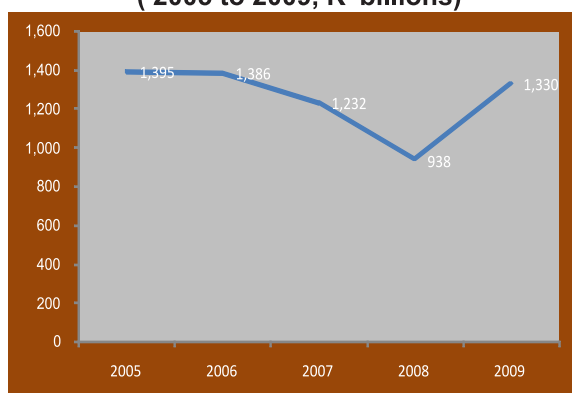
The favourable performance of company tax was attributed to enhanced compliance activities, mainly audits and debt collection efforts.

The favourable performance of PAYE was boosted by improved compliance by taxpayers and the increase in enforcement activities by the Authority on outstanding payments of PAYE arrears. The good performance of mineral royalty in 2009 is attributed to the recovery of mineral prices, particularly in the second quarter and increase in mineral production. Meanwhile, the under-performance of withholding tax was attributed to a fall in income on interest and dividends as portfolio flows and credit to the private sector declined during the global economic crisis in 2009.

Taxes on Domestic Goods and Services

Domestic goods and services taxes comprise of excise duty and domestic VAT. Since 2005, domestic goods and services taxes have averaged K1,256 billion. Collection of revenue on consumption of domestic goods and services was K1,330.6 billion in 2009 compared to K938 billion the previous year. Revenue collection on domestic goods and services has been declining since 2005 although there was a partial recovery in 2009 (see Figure 11). Excise duty contributed K1, 023.4 billion, although this was below target by K635.8 billion or 38.3 percent while domestic VAT recorded K307.1 billion.

Figure 11: Trend in revenue collection on domestic goods and services (2005 to 2009, K' billions)



The underperformance of excise duty was largely attributed to the reduced revenue contribution from hydrocarbons due Statutory Instrument No. 55 of 2009 that suspended excise duty on hydrocarbons, particularly on diesel. Revenue collection from other excisable products such as cigarettes, clear beer and mobile phone air-time remained positive and above targets. On the other hand, the performance of domestic VAT was favourable in comparison to the previous year as a result of compliance activities initiated in 2008, including the VAT Campaign, and improvements in management of VAT refunds.

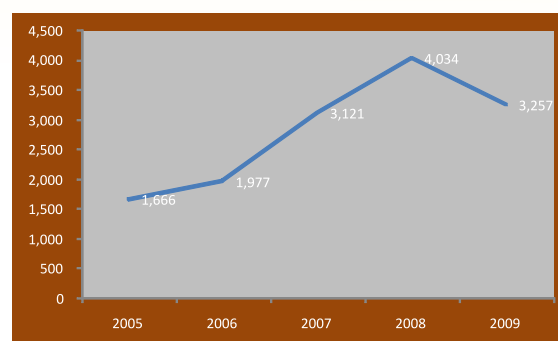
Performance of Medical Levy

Medical levy collection during the year was K12.6 billion which was K0.7 billion or 5.3 percent below target. This performance was mainly on account of reduced interest payments on savings in commercial banks.

International Trade Taxes

Revenue collection from trade taxes has been increasing since 2005 until 2009 when revenue declined significantly due to the global economic crisis (see Figure 12). A total of K3, 257.0 billion was collected from trade taxes during the year under review. This performance was K1, 199.6 billion or 26.9 percent below the Parliament target.

Figure 12: Trend in international trade tax revenue collection, (2005 to 2009, K' billions)



Import VAT contributed K2, 168.4 billion or 66.6 percent of total trade tax revenues in 2009. Import duties contributed K1, 072.0 billion or 32.9 percent and export duties K16.5 billion or 0.5 percent of total trade tax revenue collections in 2009.

The underperformance of customs duties and import VAT was attributed to reduced business volumes largely on account of reduced mining activities and the depreciation of the Kwacha against major international currencies which made imports comparatively more expensive in 2009 compared to 2008.

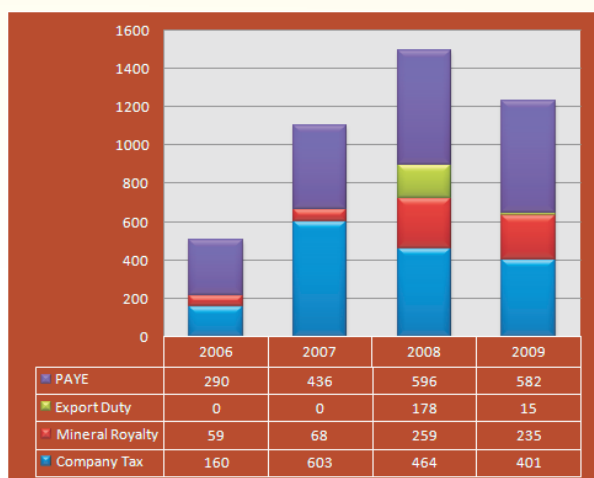
The under-performance of tax revenue on exports of copper concentrate was attributable to the implementation of the Customs and Excise (Copper Concentrates)(Export Duty) Regulations, Statutory Instrument No. 69 of 2008 which granted remission of duty on exports of copper concentrates as a result of inadequate local processing capacity. The poor performance of export duty on scrap metal exports was attributed to reduced demand in foreign markets. Similarly, collection of export duties on cotton seed was below target largely because most cotton seed produced was processed locally.

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Mining tax revenues

Figure 13 shows trends in revenue collection from mining companies since 2006. Tax revenue collection from the mining sector has risen since 2006, contributing 12.7 percent in 2009 compared to 8 percent in 2006. Although revenue collection from mining operations is still low, collection of PAYE from workers employed in the sector almost doubled between 2006 and 2009.

Figure 13: Tax revenues from the mineral sector (K' billions)



Source: ZRA

On the overall, revenue collection from mining companies decreased to K1, 232 billion in 2009 from K1, 623 billion in 2008. This decline is explained by three factors: a fall in mineral prices, review of the mineral tax regime, and the introduction of export duty on copper concentrate exports in 2008 but was suspended in 2009. The increase in the smelting capacity within Zambia in 2009 meant that revenue from export duty will subsequently fall as mining firms will no longer need to export concentrates.

Payment of tax refunds

A total of K2, 297.0 billion was paid out in tax refunds in the year under review. The bulk of the refunds were on domestic VAT which accounted for 96.2 percent while other tax types accounted for the remainder of the refunds. Nonetheless, tax refunds decreased by 20.3 percent between 2009 and 2008 (see Table 4).

Table 4: Tax refunds in 2009 and 2008 (K 'billion)

| Tax type | Gross collection in 2009 | Gross collection in 2008 | Refunds in 2009 | Refunds in 2008 |
|--------------------|--------------------------|--------------------------|-----------------|-----------------|
| Direct Taxes | 5121.2 | 4,736.7 | 35.9 | 25.3 |
| Customs and Excise | 4,331.9 | 5,457.7 | 51.6 | 55.7 |
| Domestic VAT | 2,516.5 | 2,369.7 | 2,209.4 | 2,800.5 |
| Total | 11,975.5 | 12,564.1 | 2,297.0 | 2,881.4 |

Tax Arrears

At the end of the year under review, the total stock of tax arrears stood at K6, 879 billion compared to K4, 191 billion at the end of December 2008. The bulk of the tax arrears were under domestic VAT (38.9%), followed by company tax (36.4%) and PAYE (19.0%). Overall, tax arrears increased by 64.1 percent between 2009 and 2008 (see Table 5 below).

Table 5: Tax arrears in 2009 and 2008

| Tax Type | 2009 | | 2008 | |
|--------------------|--------------|---------------------|--------------|---------------------|
| | Value (K'bn) | Percentage of total | Value (K'bn) | Percentage of total |
| Company Tax | 2,501.0 | 36 | 2,020.0 | 48 |
| Back Duty | 8.5 | 0 | 0.0 | 0 |
| Self Employed | 16.0 | 0 | 6.0 | 0 |
| Withholding Tax | 0.3 | 0 | 7.4 | 0 |
| PAYE | 1,307.0 | 19 | 445.0 | 11 |
| Turnover Tax | 0.0 | 0 | 0.0 | 0 |
| Domestic VAT | 2,678.0 | 39 | 1,554.0 | 37 |
| Customs and Excise | 367.0 | 5 | 159.0 | 4 |
| Total | 6,879.0 | 100 | 4,191.0 | 100% |

The most significant growth in tax arrears in 2009 was recorded under PAYE, self-employed individuals, customs and excise, domestic VAT and company tax that recorded growth rates of 193 percent, 166 percent, 130 percent, 72 percent and 23 percent respectively. However, there was a reduction of 95 percent in the tax arrears under the withholding tax category in 2009. The current stock of tax arrears continues to be a matter of concern and every effort is being made by the Authority to ensure that these tax arrears are collected



Open Pit Mining

Strengthening Revenue Administration



Strengthening Revenue Administration

Accelerating Implementation of the Tax Modernisation Programme

Organisational Reforms

In 2009, the Authority continued with its Modernisation Programme whose focus is to improve operational efficiency and service delivery by restructuring tax administration structures and automating business processes. The major milestones achieved in 2009 include the establishment and launch of a fully-functional Large Taxpayer Office (LTO), which also houses a specialised mining tax unit responsible for managing all tax affairs of mining companies in the country.

The Small and Medium Taxpayer Office (SMTO) was also established and capacity building programmes to sharpen skills and capabilities of tax auditors were commenced. The Design and Monitoring department responsible for the headquarter functions in the domestic tax division was launched in 2008. The establishment of the SMTO in 2009 completes the major organisational restructuring of the domestic taxes division.

Further efforts were redirected towards the business process re-engineering component of the reform that is expected to generate significant improvements in tax operations and deliver tangible efficiency benefits in tax administration, improved service delivery and reduce compliance costs for taxpayers.

Harmonisation of Legal Instruments across Tax Types

In 2009, the Authority continued to review relevant tax legislations within the context of tax modernisation programme in order to harmonise the current tax administration laws. The objective of the review was to harmonise tax provisions across tax types (VAT and Income tax) and with other legislations. This review culminated in the development of a draft Tax Administration Act that is expected to be submitted to the Ministry of Finance and National Planning for onward submission to the Ministry of Justice for consideration and enactment.

Automation of Tax Refund Processing

The volume of transactions and level of sophistication have made it imperative that tax operations should be re-engineered and automated. One of the sensitive and risky areas of tax operations is the processing and payment of tax refunds. The Authority in 2009 initiated efforts to develop a Tax Administration and Refunds Processing System (TARPS) in order to automate and improve verification and efficiency in processing of all refunds.

TARPS was further enhanced to process all tax types that were previously processed on standard alone systems outside ITAS. These tax types include turnover Tax, Withholding Tax, Mineral Royalty, Property Transfer Tax, Medical Levy, and Self Employed Individuals' Tax. This system was developed by the Information Technology Department and was launched in 2009.

With regard to payment system, the Authority commenced a project to review current payment systems with a view to developing systems for electronic registration, filing and payment of taxes. This project is expected to be completed and launched in 2010.

Taxpayer Education and Registration

During the year, the Authority continued prioritising increased taxpayer registration as a means of broadening the tax base. As a result, a total of 18,164 new taxpayers were registered and issued with Taxpayer Identification Numbers (TPINs) during the year. This figure was 1.4 percent below the 2008 figure of 18,428 (see Figure 14).

Figure 14: TPIN registrations from 2004 to 2009

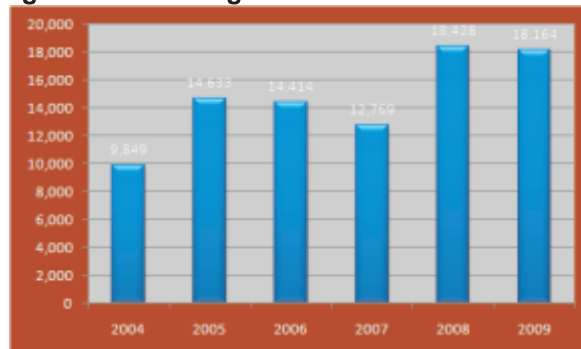
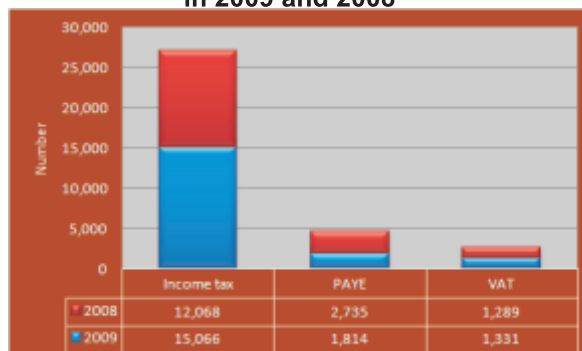


Figure 15 depicts registration trends by tax type and clearly shows that most registrations are for income tax.

Figure 15: Registration trend by tax type in 2009 and 2008



Registration for income tax purposes is always the highest followed by PAYE and VAT. During the year under review, registration for income tax increased by 25 percent from the previous year. VAT increased marginally by three percent while PAYE registration fell marginally.

Several initiatives contributed to this general upward trend in tax registration with the major ones being:

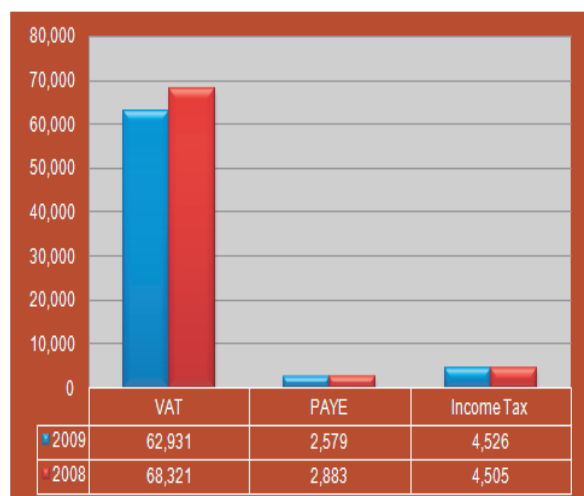
- taxpayer education campaigns at all major trade shows including the Zambia International Trade Fair (ZITF) and the Zambia Agricultural and Commercial Show (ZACS);
- the increase in the number of local tax offices that are able to issue TPINs;
- the increase in the demand for taxpayer registration and tax clearance certificates as legal requirements in formal business transactions in the economy;
- taxpayer education programmes on radio and television, and presentations at conferences and workshops; and
- Corporate Social Responsibility programmes and activities conducted during the taxpayer appreciation week.

The consistent rise in taxpayer education is expected to improve voluntary compliance in the future.

Tax Return Filing

During the year under review, the Authority received 70,036 tax returns compared to 75,709 returns in 2008. The majority of returns received were for VAT which are submitted monthly while the rest are submitted annually. As depicted in Figure 16, VAT and PAYE returns declined between 2008 and 2009. Meanwhile, Income tax returns increased marginally during the same period.

Figure 16: Number of tax returns filed in 2009 and 2008



Tax Audits

During the year under review, a total of 2,145 audits were undertaken in the LTO, MTO and STO. From these audits, a total of K1.08 trillion was collected as tax (see Table 6). The number of audits under the LTO accounted for 21 percent but resulted in 93 percent of the total tax collected. Meanwhile, 53 percent of audits were undertaken under the STO but yielded only two percent of the total tax collected. This trend highlights the issue of cost effectiveness associated with taxation of small taxpayers.

Table 6: Number of audits and tax collected in 2009

| Large Tax Office | | | | |
|--------------------|------------------|------------------------|------------------------|--------------------------|
| Tax type | Number of audits | Tax collected (K) | Deferred (K) | Total (K) |
| Income tax | 385 | 354,065,261,386 | 280,695,413,340 | 634,760,674,726 |
| PAYE | 25 | 315,299,222,933 | | 315,299,222,933 |
| VAT | 32 | 49,086,476,677 | | 49,086,476,677 |
| Sub Total | 442 | 718,450,960,996 | 280,695,413,340 | 999,146,374,336 |
| Medium Tax Office | | | | |
| Income tax | 136 | 11,346,503,687 | | 11,346,503,687 |
| PAYE | 102 | 30,079,560,258 | | 30,079,560,258 |
| VAT | 335 | 14,532,565,116 | | 14,532,565,116 |
| Sub Total | 573 | 55,958,629,061 | | 55,958,629,061 |
| Small Tax Office | | | | |
| Income tax | 148 | 1,396,473,442 | | 1,396,473,442 |
| PAYE | 112 | 20,661,138,968 | | 20,661,138,968 |
| VAT | 870 | 460,777,778 | 7,220,594,083 | 7,681,371,861 |
| Sub Total | 1,130 | 22,518,390,188 | | 22,518,390,188 |
| Grand Total | 2,145 | | | 1,077,623,393,585 |

Debt Management

Table 7 shows the trend in debt accumulation since 2006 under Domestic Taxes Division. During the period 2006 to 2009, the average debt stock was K3, 634 billion. There has been a steady rise in debt stock from 2006, reaching a peak of K5, 471 billion in 2008. This, however, fell to K3, 192 billion in 2009.

The fall in debt in 2009 is partially attributed to the re-organisation of the central Debt Collection Unit (DCU) into decentralized debt collection units operating under each operating division.

Table 7: Trend in domestic tax debt stock, 2006 to 2009 (K' billions)

| Tax Type | 2009 | 2008 | 2007 | 2006 |
|---------------|--------------|--------------|--------------|--------------|
| Company Tax | 1,182 | 2,366 | 1,271 | 1,265 |
| Back Duty | 8 | 8 | 9 | 214 |
| Self Employed | 16 | 86 | 82 | 83 |
| PAYE | 819 | 1,712 | 815 | 318 |
| Domestic VAT | 1,167 | 1,299 | 1,009 | 807 |
| Total | 3,192 | 5,471 | 3,186 | 2,687 |

Improving Customs Administration and Trade Facilitation

Customs administration plays an important role in promoting investment and growth through its trade facilitation, anti-smuggling operations, and public health and safety by securing the country supply chain. The two major roles of customs services is trade facilitation and revenue collections, both of which requires continuous reform and improvement in order to respond to changes in the global business environment. This section highlights some of the major initiatives implemented in customs administration during the year under review.

Border Agency Coordination

The Authority has developed initiatives to improve coordination among border agencies and implemented single window and One-Stop Border arrangements at Chirundu border post. In addition, the Authority continued to implement the Customs Accredited Clients Programme (CACP) that rewards credible and compliant importers and exporters by expediting clearance of their goods at entry points.

Customs Processing Efficiency

The Authority processed 374,534 customs declarations in 2009, a reduction from 438,034 entries processed in 2008. The value of total entries was K4, 517.82 billion, of which K4, 202.76 billion (or 93.0%) were assessed and paid for while K267.97 billion (5.9%) percent were assessed but not paid for.

In 2008, the total value of entries was K5,230.69 billion, of which K5,196.05 billion or 99.34 percent was collected and receipted while K28.62 billion or 0.55 percent was assessed and in payment arrears. The increase in unpaid for assessment in 2009 was expected and partly attributed to cash flow difficulties importers faced as a result of the global economic crunch and also the depreciation of the local currency that increased the amount of tax and duties payable on imports.

Table 8 shows the processing efficiency in tax yield for taxable transactions in 2009 and 2008. From the registration to assessment ratios and processing efficiency, it is clear that the Authority has room to improve the revenue yield per registration.

Table 8: Processing efficiency in tax yield taxable transactions in 2009 and 2008 (K' billions)

| Year | Un-assessed taxes | Registered, assessed but not paid | Registered, assessed paid | Total collectable amount | Percentage un-assessed | Percentage unpaid | Percentage receipted |
|------|-------------------|-----------------------------------|---------------------------|--------------------------|------------------------|-------------------|----------------------|
| 2009 | 47.09 | 267.97 | 4,202.76 | 4,517.82 | 1.04% | 5.93% | 93.03% |
| 2008 | 6.03 | 28.62 | 5,196.05 | 5,230.69 | 0.12% | 0.55% | 99.34% |

Use of risk management in customs processing and clearance

In the clearance of imports and exports the Authority applies risk profiling and management techniques to select entry declarations for different levels of scrutiny to allow for effective and efficient utilisation of resources. In the year under review 33.4 percent of the customs transactions were not subjected to any scrutiny at the borders (rooted to the green lane) and 9 percent were rooted for post clearance audit (blue lane). About 34.2 percent of the customs declarations were subjected to documentary checks (yellow lane) and another 23.3 percent were subjected to physical inspections at the Ports of entry (Red lane).

This compares favourably to the risk profiling statistics recorded in 2008, when 33 percent of entries were channelled to green, 14 percent to the blue lane, 30.9 percent to the yellow lane and 22.1 percent to the red lane for physical inspection. Furthermore, the value of declaration by lane analysis indicates that riskier goods were channelled to the red lane while less risky goods were channelled to the green lane.

In 2009, 28.4 percent of the Value for Duty Purposes (VDP) was processed under the green lane and 41.8 percent under the red lane. In 2008, 21.6 percent of the VDP was rooted to the green lane and 39.5 percent to the red lane. Figures 17, 18 and 19 below show the lane analysis for 2009 and 2008.

Figure 17: Entries by Lane in 2009 and 2008

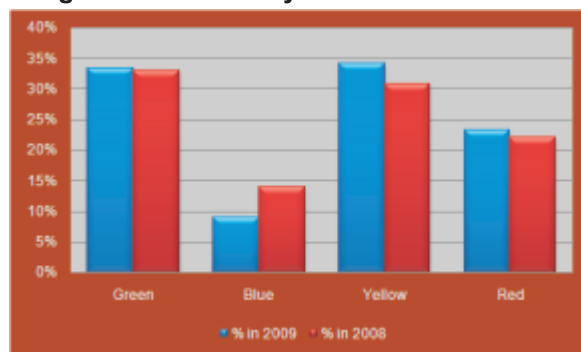


Figure 18: VDP by Lane in 2009 and 2008

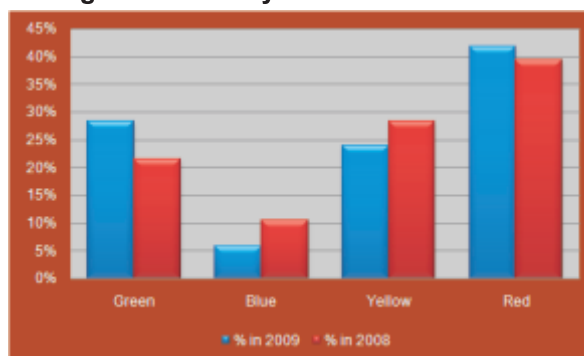
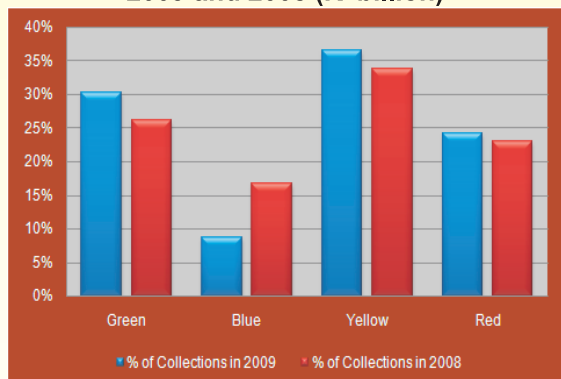


Figure 19: Lane analysis and tax yield for assessed and receipted transactions in 2009 and 2008 (K' billion)



On the overall, customs processing improved significantly in 2009 compared to 2008. For instance, the time it took to process a clean customs declaration reduced to an average of one day from 2 to 3 days in previous years.

Debt Management – Customs Services

During the year under review the Customs Services Division continued to monitor the debt stock per station in order to improve entry to cash conversion ratios and mitigate the impact of debt on treasury obligations. Of the total revenue collected by the Division in 2009, K105.45 billion or 2.5 percent was from back taxes or from assessments made prior to 2009.

Furthermore, the credit account provisions were also tightened to ensure that any debt accumulated was within the allowable credit periods. In addition, the automated locking of Taxpayer Identification Numbers (TPINs) where assessments remain unpaid beyond five days from the date of the assessment and the Declarant accounts where transits remain outstanding beyond thirty days was being enforced.

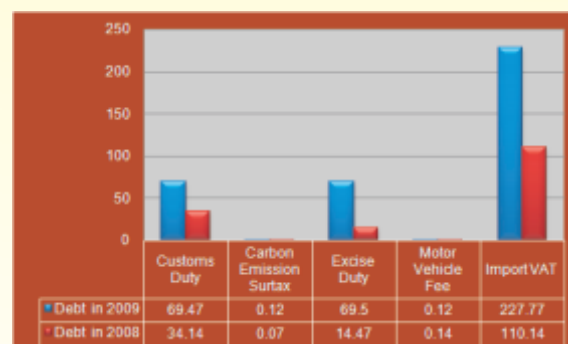
The debt stock as at the end of the period of 2009 excluding public debt was K366.99 billion. Table 9 below shows the debt according to age.

Table 9: Customs services debt stock with Age Analysis in 2009 (K' billion)

| Age (Days) | Customs Duty | Carbon Emission Surtax | Excise Duty | Motor Vehicle Fee | Import VAT | Total |
|------------|--------------|------------------------|-------------|-------------------|------------|--------|
| 0 - 30 | 5.60 | 0.026 | 6.93 | 0.029 | 15.45 | 28.04 |
| 31- 90 | 4.29 | 0.031 | 6.92 | 0.009 | 15.89 | 27.14 |
| 90 - 180 | 8.07 | 0.004 | 12.37 | 0.007 | 23.63 | 44.08 |
| Above 180 | 51.51 | 0.057 | 43.28 | 0.072 | 172.80 | 267.73 |
| Total | 69.47 | 0.12 | 69.50 | 0.12 | 227.77 | 366.99 |

The age analysis of the total debt reveals that 7.6 percent of the total debt was below 30 days old while 73.0 percent of the debt was above 180 days old. The debt exposure at the end of 2009 increased by 130.9 percent over that recorded in 2008. Figure 20 shows the movement in debt between 2008 and 2009.

Table 20: Debt movement in 2009 and 2008 (K' billion)



Seizures and illegal Imports

Following the launch of the mobile container scanners at Chirundu and Livingstone Border Posts, the Authority has recorded improvements in clearance times of commercial imports and seizures of illegal imports. With increased probability to detect illegal concealments, scanners complemented the compliance and enforcement activities at Chirundu and Livingstone border posts. As shown in Table 10, an additional amount of K0.95 billion was collected as a result of detecting illegal concealments.

Table 10: Scanner activity in 2009

| Port | Total truck traffic | Scanned | Trucks with discrepancies | Additional revenue collected (K'bn) |
|-------------|---------------------|---------|---------------------------|-------------------------------------|
| Chirundu | 36,048 | 17,624 | 80 | 0.701 |
| Livingstone | 11,919 | 11,113 | 13 | 0.251 |
| Total | 47,967 | 28,737 | 93 | 0.951 |

This success story prompted the Authority to consider extending mobile scanner facilities to other border posts and a further eight scanners are to be delivered in 2010. Our border enforcement activities were complemented with the enforcement activities undertaken by the Mobile Compliance Unit (MCU).

During the period under review, K1.56 billion was collected on interceptions made on our major roadways and other enforcement activities undertaken by MCU, compared to K0.60 billion in 2008. The major cases for the year involved suspected smuggling, fraudulent and false representation, under valuation, under declaration and interceptions of assorted goods.

Improving Border Infrastructure

Several border infrastructure development projects reached an advanced stage in 2009. The Chirundu One-stop Border post was commissioned in 2009 while the Katima Mulilo border project is expected to be commissioned in 2010. The construction of an ultra-modern Border infrastructure at Kasumbalesa Border under the Private-Public Partnership arrangement commenced in 2009.

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In addition, the rehabilitation of the Chipata Customs office was completed in 2009 and will be officially opened in 2010. These projects are expected to further strengthen border management and improve trade facilitation and service delivery at all major entry points into Zambia.

Enforcement and Prosecution Activities

Investigations

A total of 86 cases were investigated in the year under review compared to 75 cases in 2008 (see Table 11). This represents an increase of 15 percent over the past year. The total revenue recovered on completed investigations totalled K58, 012 million up from K15, 175 million recorded in 2008. A total of 25 cases were investigated under the Customs Services Division resulting in revenue recovery of K2, 073 million compared to K1, 013 million in 2008.

Table 11: Number and Value of cases investigated and completed in 2009 and 2008

| Year | No of cases | Value of cases (K' million) | | | |
|------|-------------|-----------------------------|--------------------|------------|--------|
| | | VAT | Customs and Excise | Income Tax | Total |
| 2009 | 86 | 4,460 | 2,073 | 51,479 | 58,012 |
| 2008 | 75 | 7,752 | 1,016 | 6,407 | 15,175 |

There were 61 tax related investigations and cases with K55, 939 million revenue recovered in 2009 compared to K14,159 million in 2008. These improvements in tax investigations are attributed to the re-organisation of the prosecution and investigation functions within operating divisions following dissolution of the corporate investigation function in 2007. The prosecution and investigation functions have also been strengthened through capacity building and active collaboration with Zambia Police (ZP), the Anti-Corruption Commission (ACC) and the Drug Enforcement Commission (DEC).

Prosecutions

The number of cases prosecuted increased to 31 in 2009 from 28 in 2008 (see Table 12). However, the value of cases taken to court reduced to K725.75 million in 2009 from K3, 425.00 million in 2008. Customs related prosecutions were 25 during the year, representing about 80 percent of all the cases prosecuted.

A total of eight cases were completed with varying sentences including one prison sentence and seven fines. The total revenue realised from customs prosecutions was K491 million in 2009 compared to K501 million in 2008. On the other hand, domestic taxes related prosecutions during the year were, six out of which, two were finalised. The value of the cases completed was K234 million compared to K352 million in 2008

Table 12: Type of sentences by tax type and values in 2009

| Type of Sentence | Customs and Excise | | Domestic Taxes | | Total |
|-----------------------|--------------------|--------------|----------------|--------------|--------|
| | No | Value (K'Mn) | No | Value (K'Mn) | |
| Tax only | 6 | 316.70 | 1 | 212.8 | 529.50 |
| Prison | 1 | 0 | 0 | 0 | |
| Fine | 7 | 174.75 | 1 | 11.50 | 186.25 |
| Acquittal | 1 | 0 | 0 | 0 | |
| Total | 8 | 491.45 | 2 | 234.30 | 725.75 |
| Cases in Court | | | | | |
| Year end – 2009 | 17 | | 4 | | 21 |
| Total | 25 | | 6 | | 31 |

Table 13 summarizes prosecution activities during the year by market segments. Within the stated sectors, the number of prosecutions in 2009 increased to 16 from 11 in the previous year. General traders led the category of tax offenders prosecuted in 2009, representing 62.5 percent of the stated prosecutions.

Table 13: Prosecution activity by selected market segments in 2009 and 2008

| Case segment | 2009 | 2008 |
|----------------------|------|------|
| Cross-border Traders | 3 | 2 |
| General Trading | 10 | 5 |
| Clearing Agents | 3 | 3 |
| Manufacturing | 0 | 1 |
| Total | 16 | 11 |

Litigation

In the recent past, taxpayers have demonstrated increased awareness of their right to appeal and seek justice on tax matters. The number of taxpayers contesting tax rulings and assessments reduced to 26 in 2009 from 95 in 2008 (see Table 14).

Most litigation cases against the Authority were handled in the High Court and the Revenue Appeals Tribunal (RAT). In 2009, the High Court handled 17 cases, representing 65.4 percent while 23.1 percent were handled by the RAT. The Supreme Court handled two cases while the Magistrate Court handled one case. However, the number of cases handled by the RAT declined to six during the year, from 34 in 2008.

Table 14: Tax related litigation in 2009 and 2008

| Type of Court | 2009 | 2008 |
|--------------------------------|------|------|
| Cases in Magistrates Court | 1 | 0 |
| Cases in High Court | 17 | 54 |
| Cases in Supreme Court | 2 | 7 |
| Revenue Appeals Tribunal (RAT) | 6 | 34 |
| Total cases | 26 | 95 |

Improving Service Delivery and Stakeholder Engagement

ZAMBIA REVENUE AUTHORITY
CHIPATA OFFICE

Shortening clearing process by using scanners at Chirundu Border Post



Improving Customer Service Delivery

Taxpayer Education and Advisory Services

Taxpayer education and advisory services are now an important aspect of the tax compliance strategy. In 2009, several consultative meetings with taxpayers, both small and large, were organised at the provincial and district levels. On average, the Authority organized four client workshops and seminars. The Authority participated fully in all the provincial and national trade and agricultural fairs where taxpayer education and tax registration was undertaken.

Key taxpayer awareness activities in 2009 included the commemoration of the Taxpayer Appreciation Week and Taxpayer Appreciation Day (TAD) that involved media presentations, publications and other events and activities aimed at promoting taxpayer education. The Authority ran education programmes on both national and community radio stations. A total of thirteen radio programmes were aired in 2009.

The weekly print media article called "Tax Chat" proved useful in disseminating tax information and responding to most Frequently Asked Questions received directly through the customer service centres. The Authority has established customer service help lines through which taxpayers can reach tax advisors without having to visit the customer service offices.

The ZRA Website was enhanced and updated with taxpayer information, thereby enabling taxpayers to access current information on tax and customs operations.

Performance of the Taxpayer Charter

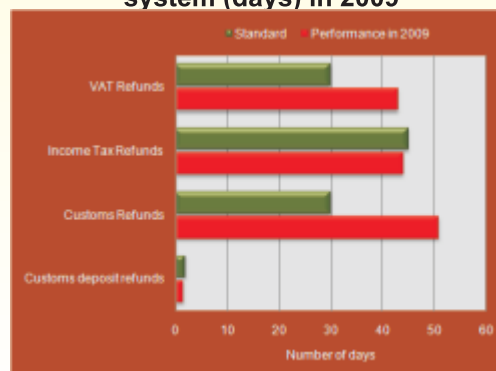
The Authority is committed to ensuring that service and operational efficiency continue to improve through the implementation of the Taxpayer Charter, which was developed in broad consultation with stakeholders. The Charter guarantees the standard of service clients expect every time they interact with the Authority.

The service standards in the Charter can be divided into two broad categories: standards related to the processing of tax refunds and those related to other customer services. There are four types of refunds covered in the charter: VAT refunds, income tax refunds, customs refunds and customs deposit refunds.

On average, income tax and customs deposit refunds were paid within the standard time set out in the Charter. Although processing time of VAT and customs refunds exceeded respective service standards,

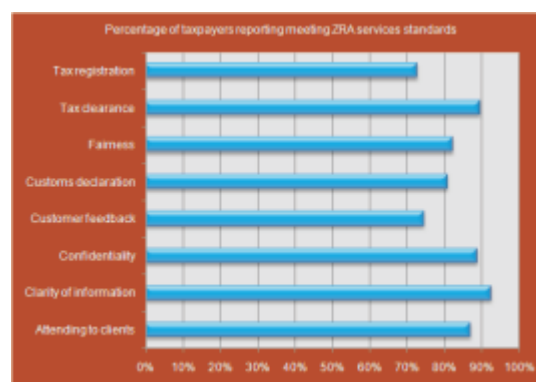
significant improvement in reducing the processing time was achieved in 2009 compared to 2008 (see Figure 21).

Figure 21: Efficiency of tax refunds processing system (days) in 2009



Other service effectiveness and efficiency standards in the Charter include measures of fairness, courtesy, clarity of tax information, confidentiality, tax registration, tax clearance services and processing of customs declarations. Performance against these standards is summarized in Figure 22, which shows, on average, how these services were delivered compared to standards set out in the Charter. For instance, under tax registration 73 percent of taxpayers were registered within the set standard of three days.

Figure 22: Effectiveness of taxpayer registration and advisory services



Stakeholder Engagement

Cooperating Partners

In 2009, the Authority continued to foster and strengthen working relationships with Cooperating Partners (CPs) in a number of fields including technical assistance and capacity building, and in the design and implementation of its tax modernisation

Annual Report 2009

programme. In the year under review, the Authority entered into partnership with the Royal Norwegian Government to provide capacity building in auditing multinational corporations and specifically mining companies and solicited for financial support from the Investment Climate Facility for developing and implementing a new tax administration system.

Other partnerships with bilateral and multilateral organisations such as the International Monetary Fund, World Customs Organisation, World Trade Organisation, COMESA, SADC, European Union, Organization for Economic Cooperation and Development and Overseas Development Institute continued in several areas of tax and customs administration. The Authority also enjoyed good working relations with other revenue bodies in the region.

Internal Partners

In order to provide support to Government in all its programmes on tax policy matters, the Authority continued to partner with institutions like the National Assembly, Bank of Zambia, commercial banks, Zambia Development Agency (ZDA), Anti Corruption Commission (ACC), Zambia Police, the Judiciary and the private sector.

Corporate Social Responsibility

Several milestones were reached in the area of Corporate Social Responsibility (CSR) in 2009. The CSR activities were targeted at local communities, employees of the Authority, and taxpayers. These activities are aimed at improving corporate image and enhancing public confidence in the revenue system, all of which are important in promoting voluntary tax compliance.

In 2009, the Authority spent K421 million on CSR activities compared to K159 million in 2008. Figure 23 shows the distribution of CSR expenditures by activity in 2008 and 2009. In 2009, expenditures on local community initiatives accounted for 26 percent of the budget compared to 49 percent in 2008. Expenditures on the local community mainly involved donations to

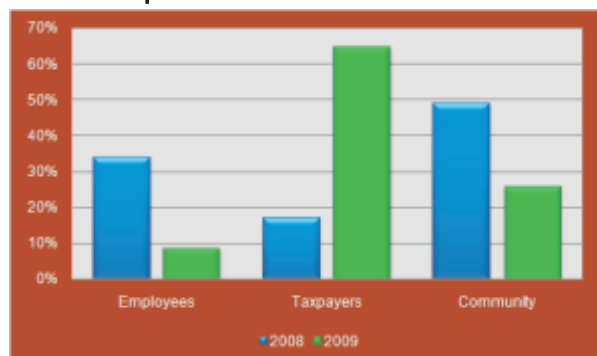
hospitals and underprivileged communities and support to major traditional ceremonies.

Staff welfare expenditures under the CSR accounted for nine percent in 2009 compared to 34 percent in 2008. Meanwhile, taxpayer related programmes accounted for 65 percent of the total CSR budget in 2009 compared to 17 percent in 2008. The bulk of the expenditure on taxpayers in 2009 was on Taxpayer Appreciation Day activities.



ZRA Annual Social Day

Figure 23: Expenditure on Corporate Social Responsibilities in 2009 and 2008



Donating to the under privileged community

Corporate Governance

ZAMBIA REVENUE AUTHORITY
CHIPATA OFFICE

Annual Report 2009**Senior Management Team**

Mr. Criticles Mwansa
Commissioner General



Mr. Muyangwa Muyangwa
Commissioner
Customs Services



Ms. Nana Mudenda
Commissioner
Corporate Services



Mr. Wisdom Nhekairo
Commissioner
Domestic Taxes



Mr. Mambwe Kaenga
Deputy Commissioner HQ



Mr. Sonny Ling'omba
Director Special Duties



Mr. Mathias Mwela
Acting Deputy Commissioner
Operations



Mr. Tenthani I. Banda
Director Administration



Mr. Yakomba Yamvwa
Director Information
Technology



Mr. Lishomwa Muuka
Legal Counsel



Mrs. Priscilla
Director Large Taxpayer
Office



Mr. Chansa Shambuluma
Director Field Delivery



Mr. Chris Habeenzu
Director Design & Monitoring



Dr. Samuel Bwalya
Director Research &
Planning



Mrs. Roselyne Raelly
Director Human Resource



Mr. Kabaye Mwale
Director Finance



Ms. Inonge Wambulawae
Chief Internal Auditor

Corporate Governance

Corporate Governance Structure

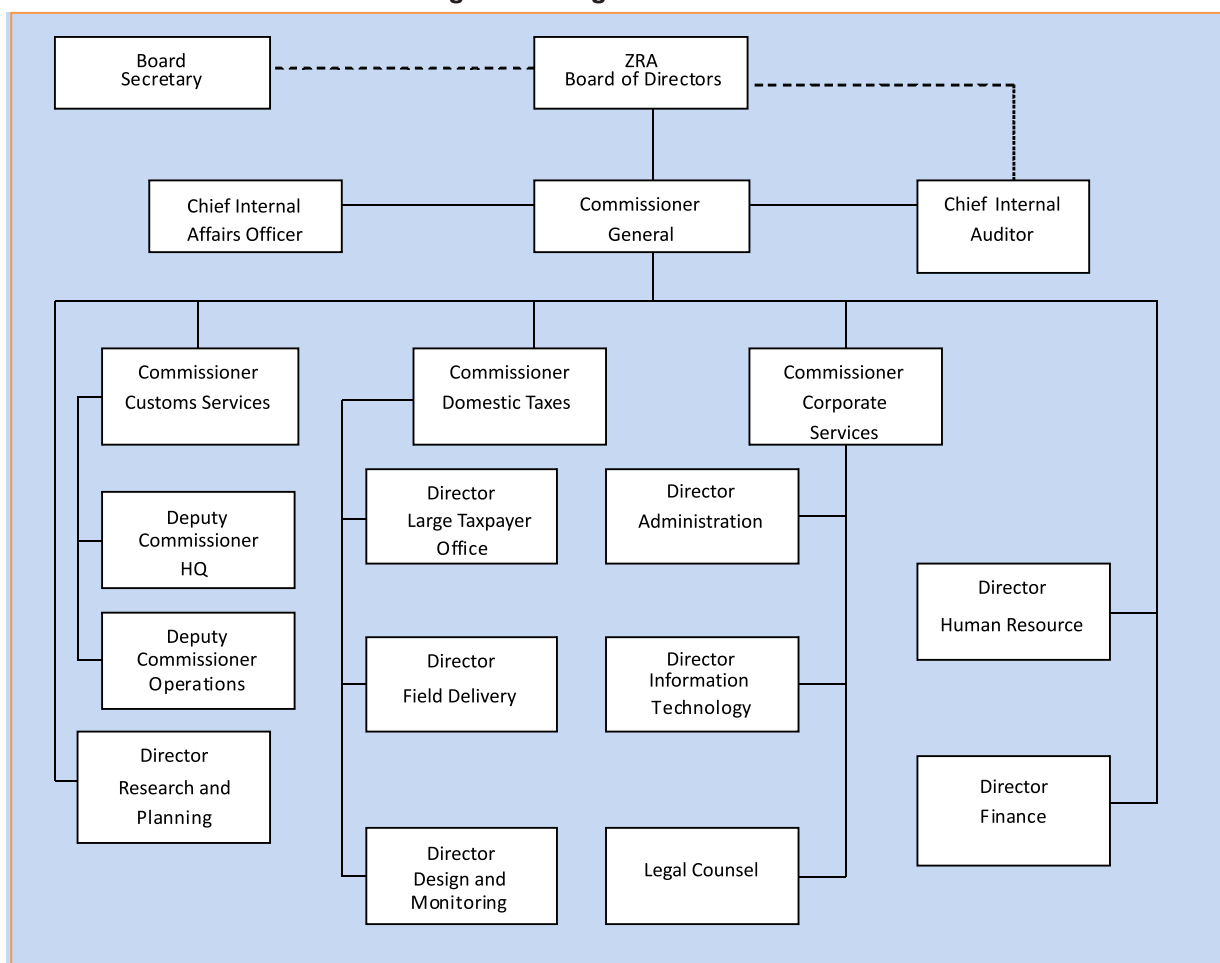
The Authority has in place a Governing Board which gets assurances from the Commissioner General on the day to day running of the Authority. The Board approves all the Authority's policies and endorses strategies. It also receives progress reports on the operation of the Authority. The Authority is headed by the Commissioner General who is in charge of overall responsibility and sets policies and strategies. The Commissioner General is supported by three Commissioners responsible for Customs Services, Domestic Taxes and Corporate Services (see Figure 24). 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, Director Finance, Director Human Resource and Director Research and Planning. The Chief Internal Affairs Officer also reports directly to the Commissioner General.

Further, the Authority has in place a senior management board called Senior Management Members (SMM) whose responsibilities are to: implement policies and strategies, review and report on progress, ensure that strategic frameworks are in place and allocate responsibilities to line managers.

The Authority uses a Corporate Plan whose objective is to provide strategic guidance to the core business. Routinely, SMM review the progress regarding implementation of the Plan. By the end of 2009, the Plan had run its third and final year. In order to uphold the tenets of good corporate governance, the Authority ensured that all activities it implemented during the year were in conformity with the Corporate Plan.

Figure 24: Organisational Chart



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Committees of the Board

To improve 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

The Audit Committee reviews the financial reports and other financial information generated by the Authority and disseminated to the 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. Furthermore, 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 Committee met seven times during the year compared to five times in 2008.

The Finance Committee

The Finance Committee receives and considers reports from the Management Tender Committee (MTC) in respect of procurements made by the Authority and assesses compliance with budgeted expenditure. The Committee met three times during the year compared to four times in 2008.

The Legal, Staff and Disciplinary Committee

The Legal, Staff and Disciplinary Committee considers among other things: the Authority's disciplinary cases pertaining to staff of the Authority and appeals; establishment; review of policies; management appraisal systems and revision of conditions of service. The Legal, Staff and Disciplinary Committee met five times during the year compared to four times in 2008.

Internal Governance Structures

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 26 process audits in 2009 compared to 33 in 2008. A total of 7 process audits were carried forward from 2008 which brought the number of audits finalised during the year to 33. During the year, two special reviews and investigations were undertaken and finalised, thereby, resulting in a total of 35 audits being submitted for consideration by the Audit Committee of the Governing Board.

Table 15: Number of audits and investigations in 2009 and 2008

| Audits and Investigations | 2009 | 2008 |
|--------------------------------------|------|------|
| Process audits | 26 | 33 |
| Process audits finalized | 33 | 21 |
| Reviews and investigations | 2 | 7 |
| Reviews and investigations finalized | 2 | 7 |

To build the capacity of our Internal Audit Division, training was undertaken in Certified Information Systems Auditor (CISA), Certified Internal Auditor (CIA) and SAP Audit and Security. In both CISA and CIA, one officer was trained and certified while the officer who trained in SAP Audit and Security is yet to be certified. A further 15 officers were trained, in-house, in Internal Auditing and Information Systems Auditing. Like in previous years, the Internal Audit Division coordinated all responses to the Office of the Auditor General (OAG).

Internal Affairs Unit

During the year, the Internal Affairs Unit, which is mandated to investigate all matters pertaining to corruption, fraud and other malpractices involving the Authority's employees, recorded 21 cases of fraud and misconduct compared to 25 recorded in 2008 (See Table 16).

Table 16: Cases of fraud and misconduct by employees in 2009 and 2008

| Type of offence | 2009 | 2008 |
|-----------------------------|------|------|
| Fraud | 2 | 4 |
| Code of Conduct (breach of) | 8 | 8 |
| Theft | 2 | 2 |
| Bribery | 7 | 7 |
| Abetting smuggling | 2 | 4 |
| Total cases investigated | 21 | 25 |

Like the year before, the largest numbers of cases investigated were in respect of bribery. Whilst cases of misconduct remained the same between 2008 and 2009, there was a reduction in cases of fraud, and abetting smuggling. Of the total cases recorded in 2009, six cases, similar to the year before, resulted in dismissal. During the year, no case was referred to the Anti-Corruption Committee (ACC) by the Authority. However, four cases were referred to the Zambia Police. Of the total cases handled by the Internal Affairs Unit in 2009, two were taken to court although no custodial sentences or convictions had been dispensed by the close of the year.

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. The ZRAIC implements integrity programmes and reports its performance on a quarterly basis to the Anti Corruption Commission (ACC). ZRAIC also conducts integrity awareness campaigns on the Authority's policies regarding corruption and unethical behaviour of its staff. The ZRAIC Secretariat is fully integrated with other structures of the Authority.

External Governance StructuresParliamentary Committees

During the year, the Authority presented the 2008 Annual Report to Parliament through the Ministry of Finance and National Planning. The Authority also made submissions to some Select Committees of Parliament, namely: the Joint Committee of Public Accounts and Audit; the Joint Expanded Committee on Estimates; and the Committee on Economic Affairs

and Labour. Some of the major presentations made to these Committees were on the following topics:

- challenges faced by the Authority in carrying out its mandate effectively;
- tax administration reorganisation and the extent to which these measures have resulted in improved revenue collection and broadened tax base; and
- the global financial crisis and its impact on revenue collection in Zambia.

The Authority also responded to all Parliamentary queries received through the MoFNP and other Government agencies.

External Audit

During the year, 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.

Managing our Resources



Managing Our Resources

Financial Resources

Government funding remains the major source of operational and capital expenditure. Other regular sources of income include: ASYCUDA processing fees; sale of cigarette stamps, and disposal of used assets. During the year, total income of the institution amounted to K234.2 billion, 1.1 percent less than the total income in 2008 (see Table 17). Government funding accounted for 90 percent. Measured against the total revenue of K 9, 678.6 billion collected during the year, total income as a percentage of revenue collection was 2.4 percent which was 0.2 percentage points lower than the 2008 figure. Overall, Government funding only marginally increased from K210.7 billion in 2008 to K210.9 billion in 2009.

In line with new international reporting standards, expenditure has now been re-classified and the detailed breakdown is given in the Financial Statements section.

At K235.8 billion, total expenditure in 2009 was K13.1 billion over the 2008 figure. Staff costs which include emoluments, gratuity provisions, training and staff welfare accounted for 73 percent compared to 66 percent in 2008. The increase was accounted for largely by the cost of living wage adjustments. The remaining other expenses, advertising and publicity and occupational costs accounted for 23 percent.

The excess of expenditure over income in 2009 is attributed to the change in providing for terminal gratuity and accrual of legal fees. The details of income and operating expenses for 2009, based on accruals basis of accounting, are as shown in the Financial Statements, which are part of this report.

Table 17: Income and operating expenses for 2009 and 2008 in K'000

| K'000 | 2,009 | 2008 |
|--|----------------------|----------------------|
| REVENUE | | |
| Government funding | 210,914,000 | 210,790,000 |
| Asycuda processing fees | 17,828,304 | 21,476,561 |
| Other income | 3,765,678 | 3,441,946 |
| Amortisation of capital grant | 1,779,849 | 1,038,245 |
| | 234,287,831 | 236,746,752 |
| EXPENDITURE | | |
| Administrative expenses | (200,860,700) | (188,863,564) |
| Other expenses | (32,762,887) | (30,515,651) |
| Advertising expenses | (2,009,956) | (2,407,017) |
| Occupancy expenses | (253,399) | (290,787) |
| | (235,886,941) | (222,077,020) |
| (EXCESS OF EXPENDITURE OVER INCOME) SURPLUS OF INCOME OVER EXPENDITURE FOR THE YEAR | (1,599,111) | 14,669,733 |
| OTHER COMPREHENSIVE INCOME | | |
| Gain on revaluation of leasehold buildings | - | 31,632,222 |
| TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR | (1,599,111) | 46,301,955 |

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Human Resources

During the year under review, the staff complement stood at 1,213 employees against the approved establishment of 1,367. This represented a decline in the staff complement of 2.6 percent over the period 2008 to 2009. The reduction is explained by declines in the net staff complement of the Customs Services and Corporate Services Divisions. Table 18 below shows the staffing position in 2009 and 2008.

Table 19 shows the staffing complement broken down by classification and gender in 2009 and 2008. During 2009, just like the year before, female employees

accounted for 32.9 percent of the total workforce in the Authority. The number of female staff remained almost constant as it grew marginally to 399 in 2009 from 397 in 2008. Staff distribution according to the type of grades or classification remained relatively the same in both 2009 and 2008. For example, in 2009, 36.5 percent of the staff was in the technical staff category, similar to the percentage in 2008 (36.2%). Likewise, those in the middle management category comprised 11.3 percent compared to 11.2 percent in 2008. Support staff and senior management comprised 50.9 percent and 1.3 percent of the workforce respectively, which was also similar to 2008.

Table 18: ZRA staff complement by Division / Unit as at end 2009 and 2008

| Division / Unit | 2009 | | 2008 | |
|--------------------------------|--------------|--------------|--------------|--------------|
| | Actual | Approved | Actual | Approved |
| Commissioner General's Office | 11 | 10 | 8 | 10 |
| Investigations Division | - | - | 29 | 36 |
| Research and Planning Division | 12 | 19 | 12 | 19 |
| Domestic Taxes Division | 399 | 440 | 398 | 427 |
| Customs Services Division | 463 | 489 | 474 | 474 |
| Corporate Services Division | 238 | 310 | 244 | 310 |
| Human Resource Division | 19 | 19 | 15 | 19 |
| Finance Division | 54 | 63 | 51 | 66 |
| Internal Audit Division | 16 | 16 | 15 | 19 |
| ZRAIC Secretariat | 1 | 1 | - | - |
| Total | 1,213 | 1,367 | 1,246 | 1,380 |

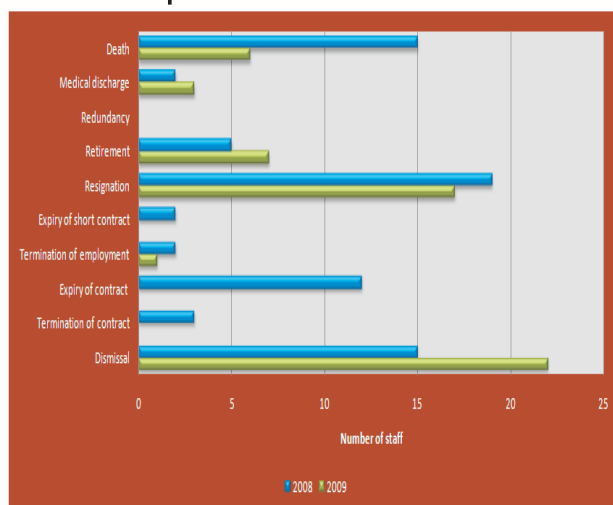
Table 19: ZRA employees by classification and gender in 2009 and 2008

| Classification (Full time) | 2009 | | 2008 | |
|------------------------------|------------|------------|------------|------------|
| | Male | Female | Male | Female |
| Senior Management ZRA00 | 1 | 0 | 1 | 0 |
| Senior Management ZRA01 | 2 | 1 | 2 | 1 |
| Senior Management ZRA02 | 9 | 3 | 9 | 3 |
| Middle Management ZRA03 – 04 | 110 | 27 | 112 | 27 |
| Technical Staff ZRA05 – 06 | 312 | 131 | 322 | 129 |
| Support Staff ZRA07 –10 | 380 | 237 | 403 | 237 |
| Total | 814 | 399 | 849 | 397 |

Staff Separations

Staff retention remains one of the most important objectives of the Authority. In this regard, the Authority implements measures to reduce high staff turnover and these are now yielding encouraging results. During the year, the Authority separated with 56 employees against 75 in 2008 while 17 employees resigned compared to 19 in 2008 (see Figure 25). In the year under review, no employee left the Authority on account of expiry of contract of employment compared to 12 in 2008. However, seven employees went on normal retirement compared to five in 2008. Other separations included three employees who were discharged on medical grounds compared to two in 2008. Meanwhile, the number of employees dismissed in 2009 increased to 22 from 15 in 2008. Most of these were dismissed on account of impropriety and corrupt practices.

Figure 25: General staff turnover by type of separation in 2009 and 2008



Staff Development Activities

In the year under review, the Authority refurbished the Training Centre and now most training programmes and workshops are undertaken there. Over the years, the Authority has attached great importance to staff development. The Authority sponsors various training programmes for its staff to improve their capacity to perform their roles diligently. During the year under review, the Authority offered training opportunities to 543 members of staff, compared to 545 members of staff trained in 2008. 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 20: Staff development in 2009

| Type of Training | Number of staff |
|--|-----------------|
| Customs Basic | 43 |
| Tax Inspectors course - VAT | 17 |
| Tax inspectors course - PAYE | 20 |
| SAP | 14 |
| Oil and Gas Terrapin | 4 |
| Job Evaluation | 4 |
| SAP Human Resource Module | 1 |
| ZRAIC Focal Point Staff | 19 |
| Business Continuity Plan | 5 |
| Leadership and Change management | 15 |
| Prince 2 | 14 |
| Strategic Management Accounting | 7 |
| Internal Audit | 16 |
| STATA (Econometrics) | 2 |
| Public Relations and Marketing | 5 |
| Intranet Administration | 11 |
| Data Base Administration -Oracle Discovery | 8 |
| Reward Management | 8 |



Human Resource Development at ZRA Training School

Annual Report 2009

Projects and Asset Management

During 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 related contracts in 2009.

A total of K5.0 billion was committed for major projects in 2009. Of this amount, K3.64 billion was paid in full by the end of 2009, leaving a balance of K1.36 billion to be paid in 2010 for the continuing elevator project. This expenditure represents 73 percent fund utilization on projects undertaken in 2009 which was similar to the previous year. In 2009, some projects were undertaken in-house by the Buildings Department. These were: refurbishment of Lusaka Port Office;

electrification of six staff houses and office blocks in Chavuma; and rehabilitation of seven staff houses in Mansa.

A total of K8.96 billion was spent on the acquisition of new assets compared to K6.95 billion in 2008. Out of the amount spent on new assets in 2009, K5.85 billion was spent on acquisition of office equipment and furniture. A further K3.1 billion was spent on purchase of 20 new motor vehicles.

With respect to asset disposal, a total of K255 million was realised from the disposal of used assets, compared to K252 million in 2008.

Table 21: The value of major projects undertaken in 2009 (Kwacha millions)

| Project Name | Value | Amount paid | Amount outstanding | Status |
|---|----------------|----------------|--------------------|-------------|
| Rehabilitation of Nchanga House - Kitwe | 687.4 | 687.4 | Nil | Completed |
| Additions and alterations to Chipata Customs office and warehouse | 737.1 | 737.1 | Nil | Completed |
| Refurbishment of Lusaka Port Office (In-house) | 51.9 | 51.9 | Nil | Completed |
| Electrification of 6 Staff houses and Office block in Chavuma (In-house) | 26.5 | 26.5 | Nil | Completed |
| Rehabilitation of 7 staff houses in Mansa (In-house) | 43.6 | 43.6 | Nil | Completed |
| Rehabilitation of Station Manager's house in Kazungula | 49.1 | 49.1 | Nil | Completed |
| Installation of four passenger lifts at Revenue House | 2,586.8 | 1,223.0 | 1,363.8 | On - going. |
| Construction of generator house and installation of generator at Chipata DOMT Office | 95.5 | 95.5 | Nil | Completed |
| Construction of generator house and installation of generator at Kariba and Kasama Border Posts | 354.1 | 354.1 | Nil | Completed |
| Construction of generator house and installation of generator at Ndola and Mansa Offices | 368.2 | 368.2 | Nil | Completed |
| TOTAL | 5,000.2 | 3,636.3 | 1,363.8 | |



Financial Statements

for the year ended 31st December 2009



ZAMBIA REVENUE AUTHORITY
CHIPATA OFFICE

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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:



MR. C. MUNDIA, S.C.

)
) **CHAIRMAN - GOVERNING BOARD**
)
)
)
)



MRS S. MWAANZA

)
) **DIRECTOR**
)
)
)
)



PO Box 30030
Lusaka
Zambia

Deloitte & Touche
Kafue House
1 Nairobi Place
Cairo Road
Lusaka

Tel: +(260) 21 228677/9
Fax: +(260) 21 226915
dtt@deloitte.co.zm

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 of the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 in the manner required by 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 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Zambia Revenue Authority Act Cap 321 of the Laws of Zambia.

DELOITTE & TOUCHE

11th June 2010

Audit. Tax. Consulting. Financial Advisory.

A member firm of
Deloitte Touche Tohmatsu

Statement of Comprehensive Income

for the year ended 31 December 2009

K'000

| | NOTES | 2,009 | 2008 |
|--|-------|---------------------------|--------------------------|
| REVENUE | | | |
| Government funding | 5 | 210,914,000 | 210,790,000 |
| Asycuda processing fees | | 17,828,304 | 21,476,561 |
| Other income | 6 | 3,765,678 | 3,441,946 |
| Amortisation of capital grant | 7 | 1,779,849 | 1,038,245 |
| | | <u>234,287,831</u> | <u>236,746,752</u> |
| EXPENDITURE | | | |
| Administrative expenses | | (200,860,700) | (188,863,564) |
| Other expenses | | (32,762,887) | (30,515,651) |
| Advertising expenses | | (2,009,956) | (2,407,017) |
| Occupancy expenses | | (253,399) | (290,787) |
| | | <u>(235,886,941)</u> | <u>(222,077,020)</u> |
| (EXCESS OF EXPENDITURE OVER INCOME) SURPLUS OF INCOME OVER EXPENDITURE FOR THE YEAR | | <u>(1,599,111)</u> | <u>14,669,733</u> |
| OTHER COMPREHENSIVE INCOME | | | |
| Gain on revaluation of leasehold buildings | | <u>-</u> | <u>31,632,222</u> |
| TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR | | <u><u>(1,599,111)</u></u> | <u><u>46,301,955</u></u> |

Annual Report 2009**Statement of Financial Position**

at 31 December 2009

| K'000 | NOTES | 2009 | 2008 |
|---|-------|--------------------|--------------------|
| ASSETS | | | |
| <i>Non-current Assets</i> | | | |
| Property, plant and equipment | 9 | 119,552,156 | 112,361,770 |
| Employee loans and advances | 12 | 3,031,752 | 4,218,014 |
| | | 122,583,908 | 116,579,784 |
| <i>Current Assets</i> | | | |
| Inventories | 11 | 1,527,658 | 1,965,614 |
| Receivables | 12 | 6,269,651 | 5,234,233 |
| Bank and cash balances | 13 | 16,886,103 | 22,529,631 |
| Customs deposits accounts | 18 | 5,339,939 | 3,099,959 |
| Tax refunds accounts | 19 | 25,743,810 | 40,070,000 |
| | | 55,767,162 | 72,899,437 |
| TOTAL ASSETS | | 178,351,070 | 189,479,222 |
| CAPITAL FUND, RESERVES AND LIABILITIES | | | |
| <i>Capital fund and reserves</i> | | | |
| Capital fund | | 28,945,974 | 29,912,440 |
| Revaluation reserve | | 29,946,858 | 30,579,502 |
| Capital reserves | | 650,491 | 650,491 |
| | | 59,543,323 | 61,142,433 |
| <i>Non-Current Liabilities</i> | | | |
| Deferred employee liabilities | 16 | 24,618,530 | 19,234,500 |
| Capital grants | 7 | 17,181,906 | 18,961,755 |
| | | 41,800,436 | 38,196,255 |
| <i>Current Liabilities</i> | | | |
| Trade payables | 14 | 12,092,870 | 8,959,183 |
| Other payables | 15 | 33,830,692 | 37,961,765 |
| Bank overdrafts - unsecured | | - | 49,626 |
| Customs deposits accounts | 18 | 5,339,939 | 3,099,959 |
| Tax refunds accounts | 19 | 25,743,810 | 40,070,000 |
| | | 77,007,311 | 90,140,533 |
| TOTAL CAPITAL FUND, RESERVES AND LIABILITIES | | 178,351,070 | 189,479,222 |

The responsibilities of the Authority's Governing Board with regard to the preparation of the financial statements are set out on page 43. The financial statements on pages 45 to 68 were approved by the Governing Board on 11th June 2010 and were signed on its behalf by:



MR. C. MUNDIA, S.C.

CHAIRMAN - GOVERNING BOARD



MRS S. MWAANZA

DIRECTOR

Statement of Changes in Capital Fund and Reserves

for the year ended 31 December 2009

K'000

| | Capital fund | Revaluation reserve | Capital reserves | Total |
|--|-------------------|------------------------|---------------------|-------------------|
| Balance at 1 January 2008 | 14,189,987 | - | 650,491 | 14,840,478 |
| Surplus of income over expenditure for year | 14,669,733 | - | - | 14,669,733 |
| Other comprehensive income | - | 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 |
| Excess of expenditure over income for the year | (1,599,111) | - | - | (1,599,111) |
| Amortisation of revaluation reserve | 632,644 | (632,644) | - | - |
| Balance at 31 December 2009 | 28,945,974 | 29,946,858 | 650,491 | 59,543,323 |

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 Income Taxes.

Annual Report 2009**Statement of Cash Flows**

for the year ended 31 December 2009

K'000

| | NOTES | 2009 | 2008 |
|--|--------------|---------------------|--------------|
| OPERATING ACTIVITIES | | | |
| (Excess of expenditure over income) surplus of income over | | | |
| expenditure for the year | | (1,599,111) | 14,669,733 |
| Adjusted for: | | | |
| Amortisation of deferred income | 7 | (1,779,849) | (1,038,245) |
| Depreciation | 9 | 6,801,296 | 5,942,660 |
| Gain on disposal of property, plant and equipment | 6 | (248,553) | (290,413) |
| Operating cash flows before movement in working capital | | 3,173,783 | 19,283,735 |
| Decrease (increase) in inventories | | 437,956 | (1,239,895) |
| Decrease (increase) in receivables | | 150,844 | (1,343,568) |
| Increase (decrease) in trade payables | | 3,133,687 | (2,453,383) |
| Decrease (increase) in other payables | | (4,131,073) | 2,776,226 |
| Increase in deferred employee liabilities | | 5,384,030 | 719,434 |
| Cash generated from operations | | 8,149,227 | 17,742,550 |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 9 | (14,494,220) | (29,303,005) |
| Proceeds from disposal of property, plant and equipment | | 751,091 | 606,337 |
| Net cash used in investing activities | | (13,743,129) | (28,696,668) |
| Net cash outflows | | (5,593,902) | (10,954,118) |
| Net cash and cash equivalents at beginning of year | | 22,480,005 | 33,434,123 |
| Net cash and cash equivalents at end of year | | 16,886,103 | 22,480,005 |
| Comprising: | | | |
| Bank and cash balances | 13 | 16,886,103 | 22,529,631 |
| Bank overdraft - unsecured | | - | (49,626) |
| | | 16,886,103 | 22,480,005 |

Notes to the Financial Statements

for the year ended 31 December 2009

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 principal 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 Authority's registered office and principal place of business is:

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 Standards and Interpretations affecting amounts reported in the current period

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section 2.2.

Standards affecting presentation and disclosure

IAS 1 (as revised in 2007) Presentation of Financial Statements

IAS 1(2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Authority has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

Standards and Interpretations affecting the reported results or financial position

Amendments to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

As part of Improvements to IFRSs (2008), IAS 20 has been amended to require that the benefit of a government loan at a below-market rate of interest be treated as a government grant. This accounting treatment was not permitted prior to these amendments.

Annual Report 2009

Notes to the Financial Statements (continued)

for the year ended 31 December 2009

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

2.2 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendments deal with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRSs for the first time and with the recognition of dividend income from subsidiaries in a parent's separate financial statements.

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (adopted in advance of effective date of 1 January 2010)

Disclosures in these financial statements have been modified to reflect the International Accounting Standards Board's clarification (as part of Improvements to IFRSs (2009)) that the disclosure requirements in Standards other than IFRS 5 do not generally apply to non-current assets classified as held for sale and discontinued operations.

IAS 23 (as revised in 2007) Borrowing Costs

The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred. This change has had no impact on these financial statements because it has always been the Authority's accounting policy to capitalise borrowing costs incurred on qualifying assets.

Improvements to IFRSs (2008)

In addition to the changes affecting amounts reported in the financial statements described above, the Improvements have led to a number of changes in the detail of the Authority's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported. The majority of these amendments are effective from 1 January 2009.

Improvements to IFRSs (2009)

In addition to the amendments to IFRS 5 and IAS 7 described earlier in this section, and the amendments to IAS 17 discussed in section 2.3 below, the Improvements have led to a number of changes in the detail of the Authority's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported. Except as noted in 2.3 below, these changes have been adopted in advance of their effective dates (generally 1 January 2010).

Notes to the Financial Statements (continued)
for the year ended 31 December 2009

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

2.3 Standards and Interpretations in issue not yet adopted

As part of Improvements to IFRSs (2009) issued in April 2009, the International Accounting Standards Board amended the requirements of IAS 17 Leases regarding the classification of leases of land. Prior to amendment, IAS 17 generally required leases of land with an indefinite useful life to be classified as operating leases. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendments, leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of IAS 17. These amendments are effective for annual periods beginning on or after 1 January 2010, and they are to be applied retrospectively to unexpired leases at 1 January 2010 if the necessary information was available at the inception of the lease. Otherwise, the revised Standard will be applied based on the facts and circumstances existing on 1 January 2010 (i.e. the date of adoption of the amendments).

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

Government funding

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

Interest income

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.

Rental income

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

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:

Notes to the Financial Statements (continued)
for the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asycuda processing fees (Continued)

- h the amount of revenue can be measured reliably;
- h 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.

3.4 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Authority as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.5 Foreign currencies

The financial statements of the Authority are presented in the currency of the primary economic environment in which the entities operate (its functional currency). The results and financial position of the Authority are expressed in Zambian Kwacha ('K'), which is the functional currency of the Authority and the presentation currency for the financial statements.

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

3.6 Retirement benefit costs

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 statement of comprehensive income 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.

Notes to the Financial Statements (continued)

for the year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Property, plant and equipment

Leasehold buildings are stated in the statement of financial position 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 statement of financial position 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 statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the statement of comprehensive income) 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 statement of financial position at cost less

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 annual rate;

| | |
|---|-----|
| Leasehold land and buildings | 2% |
| Office equipment, Furniture, fixture and fittings | 20% |
| Motor vehicles | 25% |
| Scanners | 10% |

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 statement of comprehensive income.

3.8 Impairment of tangible assets

At each reporting 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.

Notes to the Financial Statements (continued)

for the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.8 Impairment of tangible assets (Continued)**

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 statement of comprehensive income, 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 statement of comprehensive income, 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.

3.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method and includes direct material cost and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

3.10 Provisions

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

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

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

3.11 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 statement of comprehensive income in equal annual installments over the expected useful lives of the related assets.

3.12 Financial instruments**3.12.1 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.

Notes to the Financial Statements (continued)
for the year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Financial instruments (Continued)

3.12.1 Financial assets (Continued)

(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.

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.

3.12.2 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

3.12.3 Impairment of financial assets

The Authority assesses at each reporting 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 employment.

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.

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Notes to the Financial Statements (continued) for the year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Financial instruments (Continued)

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.

3.13 Financial liabilities

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATES UNCERTAINTY

In the application of the Authority's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods.

4.1 Key sources of estimation uncertainty

The following is the key assumption concerning the future, and other key source of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) 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 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 (continued)

for the year ended 31 December 2009

K'000**5. GOVERNMENT FUNDING**

| | 2009 | 2008 |
|-----------------------------|--------------------|--------------------|
| Annual budgetary allocation | 205,014,000 | 210,790,000 |
| Supplementary funding | 5,900,000 | - |
| | 210,914,000 | 210,790,000 |

The supplementary funding was in respect of litigation support.

6. OTHER INCOME

| | | |
|---|------------------|------------------|
| Cigarette stamps sales proceeds | 1,815,352 | 1,360,590 |
| Sundry income | 820,353 | 1,057,513 |
| Interest income | 677,754 | 357,356 |
| Gain on disposal of property, plant and equipment | 248,553 | 290,413 |
| Rental income | 203,666 | 195,575 |
| Write back of bad debt provision | - | 180,500 |
| | 3,765,678 | 3,441,946 |

7. CAPITAL GRANTS

| | | |
|--|-------------------|-------------------|
| At beginning of year | 18,961,755 | 20,000,000 |
| Amortised to statement of comprehensive income | (1,779,849) | (1,038,245) |
| At year end | 17,181,906 | 18,961,755 |

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.

8. TAXATION

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

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Notes to the Financial Statements (continued)

for the year ended 31 December 2009

K'000

9. PROPERTY, PLANT AND EQUIPMENT

| COST OR VALUATION | Leasehold land & buildings | Plant & office equipment | Motor vehicles | Furniture, fixtures & fittings | Capital work in progress | Total |
|--|---|---|---------------------------|---|-------------------------------------|--------------------|
| 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 | 77,396,163 | 45,599,810 | 17,655,223 | 4,247,518 | 9,664,529 | 154,563,243 |
| Additions | 3,500,000 | 1,261,314 | 6,601,131 | 597,384 | 2,534,391 | 14,494,220 |
| Disposals | - | - | (2,674,018) | - | - | (2,674,018) |
| At 31 December 2009 | 80,896,163 | 46,861,124 | 21,582,336 | 4,844,902 | 12,198,920 | 166,383,445 |
| Cost or valuation at 31 December 2009 is represented by: | | | | | | |
| Cost | 3,500,000 | 46,861,124 | 21,582,336 | 4,844,902 | 12,198,920 | 88,987,282 |
| Valuation 2009 | 77,396,163 | - | - | - | - | 77,396,163 |
| | 80,896,163 | 46,861,124 | 21,582,336 | 4,844,902 | 12,198,920 | 166,383,445 |
| DEPRECIATION | | | | | | |
| 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 |
| Charge for year | - | 3,755,154 | 2,735,546 | 310,597 | - | 6,801,296 |
| Eliminated on disposal | - | - | (2,171,480) | - | - | (2,171,480) |
| At 31 December 2009 | - | 26,433,588 | 11,651,565 | 3,407,301 | 5,338,835 | 46,831,289 |
| CARRYING VALUE | | | | | | |
| At 31 December 2009 | 80,896,163 | 20,427,536 | 9,930,771 | 1,437,601 | 6,860,085 | 119,552,156 |
| At 31 December 2008 | 77,396,163 | 22,921,376 | 6,567,723 | 1,150,814 | 4,325,694 | 112,361,770 |

The Governing Board consider that the carrying value of property, plant and equipment does not exceed their fair values

The Governing Board believe that the residual values of leasehold land and buildings are greater than their carrying amounts and as such no depreciation charge has been recorded in respect of this class of assets in the current year.

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

Leasehold land and buildings were revalued on the basis of open market value for existing use by independent registered valuation surveyors on 31 December 2008.

Notes to the Financial Statements (continued)

for the year ended 31 December 2009

K'000

10. CAPITAL COMMITMENTS

| | 2009 | 2008 |
|--|------------------|------------------|
| Approved by the Governing Board and contracted for | <u>2,194,851</u> | <u>1,750,000</u> |

In the year under review the Authority embarked on replacement of elevators and purchase of an institutional house.

11. INVENTORIES

| | | |
|---------------------------------|------------------|------------------|
| Stationery and cigarette stamps | 1,488,541 | 1,850,967 |
| Other consumables | 22,641 | 35,692 |
| Uniforms | <u>16,477</u> | <u>78,956</u> |
| | <u>1,527,658</u> | <u>1,965,614</u> |

The cost of inventories recognised as an expense during the period was **K1,392 million** (2008: K684 million).

12. 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.

Receivables at the balance sheet date were as follows:

| | | |
|--|--------------------|--------------------|
| Employees' loans and advances | 6,046,332 | 6,000,361 |
| Prepayments | 1,816,910 | 195,972 |
| Other receivables | <u>1,438,161</u> | <u>3,255,913</u> |
| | 9,301,403 | 9,452,246 |
| Employees' loans and advances - included under non-current assets | <u>(3,031,752)</u> | <u>(4,218,014)</u> |
| Included under current assets | <u>6,269,651</u> | <u>5,234,233</u> |

Employees' loans and advances

Total loan receivables (net of allowances) held by the Authority at 31 December 2009 amounted to **K6 billion** (2008: K6 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 accordance with conditions of service is 5%.

Annual Report 2009**Notes to the Financial Statements (continued)**

for the year ended 31 December 2009

K'000**12. RECEIVABLES (CONTINUED)****2009****2008**

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

| | | |
|------------------------|------------------|-----------|
| Home ownership loan | 2,480,634 | 2,967,023 |
| Other loans | 3,339,049 | 2,158,912 |
| Vehicle ownership loan | 648,399 | 1,289,023 |
| Personal loan | 298,532 | 367,890 |

| | | |
|-------------------------------|------------------|-----------|
| | 6,766,614 | 6,782,848 |
| Allowances for doubtful debts | (720,282) | (782,487) |

Maturity analysis

| | | |
|--|------------------|-----------|
| Amounts falling due within one year | | |
| - included under current assets | 3,014,580 | 1,782,347 |
| Amounts falling due after more than one year | | |
| - included under non-current assets | 3,031,752 | 4,218,014 |

Movement in the allowance for doubtful debts

| | | |
|--|-----------------|-----------|
| At beginning of the year | 782,487 | 962,987 |
| Charge to statement of comprehensive statement | 10,961 | - |
| Bad debts written off | (73,166) | (180,500) |
| At year end | 720,282 | 782,487 |

Ageing of impaired loan receivables

Of the total loans and other receivables, **K73 million** (2008: K108 million) which were 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.

Notes to the Financial Statements (continued)

for the year ended 31 December 2009

K'000

12. RECEIVABLES (CONTINUED)

2009

2008

Ageing of past due but not impaired

60 - 90 days

141,241

170,200

90 - 120 days

121,324

221,098

262,565**391,298**

Included in the Authority's loan receivable balance are debtors with a carrying amount of **ZK263 million** (2008: ZK391million) 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.

13. BANK AND CASH BALANCES

2009

2008

Held in :

Zambia National Commercial Bank Plc

16,343,405

16,286,912

Cavmont Capital Holdings Plc

154,797

120,308

Bank of Zambia

125,071

1,064,593

Union Bank Zambia Limited (In Liquidation)

35,799

35,799

Finance Bank Zambia Limited

15,583

4,185,466

Investrust Bank Plc

-

3,942

16,674,654

21,697,020

Cash on-hand

247,248

832,611

16,921,903

22,529,631

Provision for Union Bank balances

(35,799)

-

16,886,103**22,529,631**

Bank balances are represented by:

Call accounts

9,930,356

18,869,134

Revolving fund accounts

6,744,298

2,827,885

Imprest accounts for stations

247,248

832,612

16,921,903**22,529,631**

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

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** (2008: 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.

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Notes to the Financial Statements (continued)

for the year ended 31 December 2009

K'000

15. OTHER PAYABLES

| | 2009 | 2008 |
|---|-------------------|-------------------|
| Deferred employee liabilities (note 15) | 24,168,513 | 19,592,645 |
| Pay As You Earn | 5,169,965 | 7,286,546 |
| Sundry payables and accruals | 3,630,360 | 10,438,852 |
| NAPSA | 861,854 | 643,721 |
| | 33,830,692 | 37,961,765 |

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 EMPLOYEE LIABILITIES

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

| | | |
|--|---------------------|---------------------|
| End of contract gratuity | 36,600,261 | 30,036,455 |
| Leave pay | 9,264,705 | 7,067,955 |
| Other | 2,922,078 | 1,722,735 |
| | 48,787,043 | 38,827,145 |
| Less: Employee related accruals | | |
| - included under non-current liabilities | (24,618,530) | (19,234,500) |
| Included under current liabilities (note 15) | 24,168,513 | 19,592,645 |

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

Included in employee related accruals are the following:

| | End of contract gratuity | Leave pay | Other | Total |
|--------------------------------------|--------------------------|------------------|------------------|---------------------|
| Balance at the beginning of the year | 30,036,455 | 7,067,955 | 1,722,735 | 38,827,145 |
| Additional provisions for the year | 19,376,824 | 10,796,499 | 3,094,267 | 33,267,591 |
| Payments during the year | (12,813,019) | (8,599,749) | (1,894,925) | (23,307,693) |
| At end of the year | 36,600,261 | 9,264,705 | 2,922,078 | 48,787,043 |

Maturity analysis

| | End of contract gratuity | Leave pay | Other | 2009 Total | 2008 Total |
|--|--------------------------|------------------|------------------|-------------------|-------------------|
| Amounts falling due within one year | | | | | |
| - included under current liabilities | 13,829,574 | 8,547,099 | 2,922,078 | 25,298,751 | 19,592,645 |
| Amounts falling due after more than one year | | | | | |
| - included under non-current liabilities as deferred liabilities | 22,770,687 | 717,606 | - | 23,488,293 | 18,515,066 |
| | 36,600,261 | 9,264,705 | 2,922,078 | 48,787,043 | 38,827,145 |

Notes to the Financial Statements (continued)

for the year ended 31 December 2009

K'000

17. FINANCIAL INSTRUMENTS**2009****2008**

The Governing Board manages 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**Financial assets**

- Bank and cash balances
- Loans advances and receivables

16,886,103 22,529,631**9,301,403** 9,452,246**26,187,506** 31,981,877**Financial liabilities**

- Other payables
- Trade payables
- Bank overdraft

24,618,530 19,234,500**12,092,870** 8,959,183**-** 49,626**36,711,400** 28,243,309**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 its 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.

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Notes to the Financial Statements (continued)

for the year ended 31 December 2009

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17. FINANCIAL INSTRUMENTS (CONTINUED)

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.

The carrying amounts of the Authority's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

Exposure to currency risk

| | USD | GBP | ZMK | Total Kwacha |
|-------------------------------------|------------------|------------------|---------------------|---------------------|
| At 31 December 2009 | | | | |
| Foreign currency assets | | | | |
| Receivables | - | 1,727,512 | 4,542,139 | 6,269,651 |
| Total foreign currency assets | - | 1,727,512 | 4,542,139 | 6,269,651 |
| Foreign currency liabilities | | | | |
| Other payables | 960,604 | 44,106 | 32,825,982 | 33,830,692 |
| Total foreign currency liabilities | 960,604 | 44,106 | 32,825,982 | 33,830,692 |
| Net exposure | (960,604) | 1,683,407 | (28,283,843) | (27,561,041) |

At 31 December 2008

Foreign currency assets

| | | | | |
|-------------------------------|-----------|---|-----------|-----------|
| Receivables | 1,659,691 | - | 3,574,542 | 5,234,233 |
| Total foreign currency assets | 1,659,691 | - | 3,574,542 | 5,234,233 |

Foreign currency liabilities

| | | | | |
|------------------------------------|---|---|------------|------------|
| Other payables | - | - | 37,961,765 | 37,961,765 |
| Total foreign currency liabilities | - | - | 37,961,765 | 37,961,765 |

Net exposure

| | | | |
|-----------|---|--------------|--------------|
| 1,659,691 | - | (34,387,223) | (32,727,532) |
|-----------|---|--------------|--------------|

The following are exchange rates for the significant currencies applied as at the date of the statement of financial position:

| | Spot rate | |
|-------|--------------|-------|
| | 2009 | 2008 |
| | ZMK | ZMK |
| USD 1 | 4,642 | 4,800 |
| GBP 1 | 7,358 | 6,959 |

Notes to the Financial Statements (continued)
for the year ended 31 December 2009

K'000

17. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency sensitivity

The following table illustrates a 12 percent strengthening of the Kwacha against the relevant foreign currencies. 12 percent is based on observable trends, presented to key management personnel, in the value of Kwacha to major foreign currencies. The sensitivity analysis includes only foreign currency denominated monetary items outstanding at reporting date and adjusts their translation for a 12 percent change in foreign currency rates. This analysis assumes all other variables; in particular interest rates remain constant. The analysis is performed on the same basis for 2008.

Effect in Kwacha

| | Income statement |
|-------------------------|-----------------------------|
| 31 December 2009 | |
| USD | 115,273 |
| GBP | (202,009) |
| 31 December 2008 | |
| USD | (199,163) |

A 12 percent weakening of the Kwacha against the above currencies at 31 December 2009 would have had an equal but opposite effect to the amounts shown above.

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: | 2009 | 2008 |
| Bank and cash balances | 16,886,103 | 22,529,631 |
| Loans and other receivables | 9,301,403 | 9,452,246 |
| | 26,187,506 | 31,981,877 |

No collateral is held for the loans and advances except for receivables relating to home ownership 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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Notes to the Financial Statements (continued)

for the year ended 31 December 2009

K'000

17. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management

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 2009

| | 1 - 3 month | 3 months to 1 year | 1 - 5 years | 5 + years | Total |
|-------------------------------|--------------------|-----------------------|---------------------|------------------|---------------------|
| Liabilities | | | | | |
| Trade and other payables | 21,550,988 | 24,372,574 | | - | 45,923,562 |
| Deferred liabilities | - | - | 24,618,530 | - | 24,618,530 |
| | <u>21,550,988</u> | <u>24,372,574</u> | <u>24,618,530</u> | <u>-</u> | <u>70,542,092</u> |
| Assets | | | | | |
| Receivables due within 1 year | - | 6,269,651 | - | - | 6,269,651 |
| Receivables due after 1 year | - | - | 638,624 | 2,393,128 | 3,031,752 |
| Bank and cash | 16,886,103 | - | - | - | 16,886,103 |
| | <u>16,886,103</u> | <u>6,269,651</u> | <u>638,624</u> | <u>2,393,128</u> | <u>26,187,506</u> |
| | <u>(4,664,885)</u> | <u>(18,102,923)</u> | <u>(23,979,906)</u> | <u>2,393,128</u> | <u>(44,354,586)</u> |

Year ended 31 December 2008

Liabilities

| | | | | | |
|--------------------------|-------------------|-------------------|-------------------|----------|-------------------|
| Trade and other payables | 26,801,548 | 20,119,400 | - | - | 46,920,948 |
| Deferred liabilities | - | - | 19,234,500 | - | 19,234,500 |
| Bank overdraft | 49,626 | -- | -- | - | 49,626 |
| | <u>26,851,174</u> | <u>20,119,400</u> | <u>19,234,500</u> | <u>-</u> | <u>66,205,074</u> |

Assets

| | | | | | |
|-------------------------------|--------------------|---------------------|---------------------|------------------|---------------------|
| Receivables due within 1 year | - | 5,234,233 | - | - | 5,234,233 |
| Receivables due after 1 year | - | - | 2,917,514 | 1,300,500 | 4,218,014 |
| Bank and cash | 22,529,631 | -- | -- | -- | 22,529,631 |
| | <u>22,529,631</u> | <u>5,234,233</u> | <u>2,917,514</u> | <u>1,300,500</u> | <u>31,981,877</u> |
| | <u>(4,321,543)</u> | <u>(14,885,167)</u> | <u>(16,316,986)</u> | <u>1,300,500</u> | <u>(34,223,197)</u> |

Notes to the Financial Statements (continued)

for the year ended 31 December 2009

K'000

18. CUSTOMS DEPOSITS ACCOUNTS

2009

2008

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.

19. TAX REFUNDS ACCOUNTS

Value Added Tax ("VAT") refund
Customs refund
Income tax refund

24,178,544

36,780,000

1,183,383

2,890,000

381,884

400,000

25,743,810**40,070,000**

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.

20. 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.

21. 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 **K204 million** (2008: K320 million).

22. 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.

Annual Report 2009**Notes to the Financial Statements (continued)**

for the year ended 31 December 2009

K'000**22. RELATED PARTY TRANSACTIONS (CONTINUED)**

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:

| | 2009 | 2008 |
|-------------------------------|--------------------|-------------|
| - Government funding received | 205,014,000 | 210,914,000 |
| - Supplementary funding | 5,900,000 | - |

Year end balances

Tax refund accounts - included in current assets

and liabilities

25,743,810

40,070,000

Customs deposit accounts - included in current assets and liabilities

5,339,939

3,099,959

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:

| | | |
|--------------------------|-------------------|------------|
| Short term benefits | 8,679,638 | 9,231,782 |
| Post employment benefits | 2,212,827 | 1,856,172 |
| | 10,892,464 | 11,087,954 |

23. EVENTS AFTER THE REPORTING DATE

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

Expenditure Analysis

for the year ended 31 December 2009

K'000

| | 2009 | 2008 |
|---|--------------------|--------------------|
| Advertising expenses | | |
| Advertising and public relations | 1,816,913 | 1,546,851 |
| Advertising/promotional material | <u>193,043</u> | <u>860,166</u> |
| | <u>2,009,956</u> | <u>2,407,017</u> |
| Occupancy expenses | | |
| Office rentals | <u>253,399</u> | <u>290,787</u> |
| Administration expenses | | |
| Basic pay | 79,806,221 | 70,421,927 |
| Other allowances | 48,028,162 | 44,757,312 |
| Housing allowances | 29,920,042 | 28,846,733 |
| NAPSA: employer's contributions | 4,643,272 | 3,822,601 |
| Insurance | 2,557,359 | 2,257,102 |
| Medical expenses | 2,555,761 | 2,671,057 |
| Training | 1,878,704 | 2,116,945 |
| Staff welfare | 1,327,599 | 1,527,651 |
| Workers' compensation | <u>355,422</u> | <u>390,815</u> |
| Total employee benefits expenses | <u>171,072,542</u> | <u>156,812,143</u> |
| Repairs and maintenance | 10,520,410 | 10,229,697 |
| Legal and professional fees | 4,587,569 | 3,187,697 |
| Postage and telephones | 3,296,482 | 4,158,274 |
| Security | 2,782,028 | 4,069,214 |
| Printing and stationery | 2,544,014 | 2,349,940 |
| Cigarette stamps | 1,365,813 | 555,804 |
| Conferences and seminars | 807,835 | 464,941 |
| Electricity, water and rates | 607,453 | 666,967 |
| Sundry expenses | 598,502 | 705,039 |
| Bank charges and interest | 572,366 | 651,289 |
| Subscriptions and publications | 567,466 | 393,395 |
| Travel expenses | 399,442 | 3,456,148 |
| Board expenses | 387,788 | 113,620 |
| Audit expenses | 291,740 | 105,750 |
| Insurance | 287,352 | 491,960 |
| Obsolete stock write off/loss inventory differences | 89,370 | - |
| Staff uniforms | 35,768 | 451,686 |
| Bad debts provision- Union banks | 35,799 | - |
| Bad debts provision- employee receivables | <u>10,961</u> | <u>-</u> |
| Other administrative expenses | <u>29,788,159</u> | <u>32,051,421</u> |
| Total administration expenses | <u>200,860,700</u> | <u>188,863,564</u> |

Annual Report 2009**Expenditure Analysis (continued)**

for the year ended 31 December 2009

K'000

| | 2009 | 2008 |
|-----------------------|-------------------|-------------------|
| Other expenses | | |
| Professional fees | 9,035,911 | 11,199,794 |
| Depreciation expense | 6,801,297 | 5,942,660 |
| Local travel | 5,972,557 | 5,825,575 |
| Relocating | 1,948,142 | 606,130 |
| Scanner's expenses | 2,383,651 | - |
| Field work - fuel | 2,132,363 | 2,919,976 |
| Repairs | 1,379,582 | 1,776,672 |
| Foreign travel | 1,247,664 | 546,201 |
| Insurance | 841,268 | 771,647 |
| Fuel | 753,221 | 670,311 |
| Net exchange losses | 252,571 | 158,059 |
| Disturbance allowance | 14,659 | 98,626 |
| | <u>32,762,887</u> | <u>30,515,651</u> |

Revenue Statistical Information

Gross Domestic Product in current prices

Source: Central Statistical Office

Unit: ZMK billions

| KIND OF ECONOMIC ACTIVITY | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|---------|---------|---------|---------|---------|----------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Agriculture, Forestry and Fishing | 487.0 | 611.7 | 844.8 | 1,127.9 | 1,614.4 | 2,002.2 | 2,982.0 | 3,247.4 | 4,244.6 | 5,568.2 | 6,723.6 | 7,800.2 | 9,139.5 | 10,869.8 | 13,469.9 |
| Agriculture | 219.0 | 259.0 | 322.2 | 362.6 | 459.1 | 561.1 | 827.3 | 749.8 | 1,008.2 | 1,249.5 | 1,421.7 | 1,537.0 | 1,579.1 | 1,828.4 | 2,377.1 |
| Forestry | 167.3 | 250.1 | 424.7 | 662.3 | 1,032.8 | 1,285.0 | 1,778.5 | 2,274.3 | 2,840.3 | 3,898.5 | 4,820.3 | 5,853.7 | 7,127.7 | 8,591.6 | 10,498.2 |
| Fishing | 106.7 | 102.7 | 96.8 | 103.0 | 128.6 | 156.1 | 176.3 | 223.3 | 276.1 | 328.2 | 381.6 | 407.5 | 436.7 | 589.8 | 594.6 |
| Mining and Quarrying | 432.9 | 476.8 | 510.9 | 378.3 | 281.3 | 416.1 | 518.9 | 575.1 | 564.8 | 809.6 | 1,030.9 | 1,612.5 | 2,037.2 | 2,227.6 | 805.4 |
| Metal Mining | 428.0 | 472.0 | 505.8 | 373.4 | 276.4 | 407.9 | 511.3 | 568.8 | 558.2 | 798.3 | 1,011.7 | 1,597.5 | 2,027.2 | 2,217.4 | 802.1 |
| Other Mining and Quarrying | 4.9 | 4.8 | 5.0 | 4.9 | 4.9 | 8.2 | 7.6 | 6.3 | 6.6 | 11.3 | 19.1 | 15.0 | 9.9 | 10.2 | 3.3 |
| PRIMARY SECTOR | 919.9 | 1,088.5 | 1,355.6 | 1,506.2 | 1,895.8 | 2,418.4 | 3,501.0 | 3,822.5 | 4,809.4 | 6,377.7 | 7,754.5 | 9,412.8 | 11,176.7 | 13,081.4 | 14,275.3 |
| Manufacturing | 296.9 | 465.4 | 597.5 | 692.2 | 806.7 | 1,024.6 | 1,293.1 | 1,693.6 | 2,241.0 | 2,827.7 | 3,430.2 | 4,015.7 | 4,487.4 | 5,125.0 | 6,011.3 |
| Food, Beverages and Tobacco | 195.9 | 321.0 | 364.4 | 424.7 | 497.8 | 613.9 | 768.4 | 1,033.4 | 1,397.2 | 1,728.6 | 2,121.0 | 2,423.5 | 2,745.1 | 3,185.4 | 3,852.5 |
| Textile, and Leather Industries | 26.6 | 44.5 | 91.2 | 114.1 | 139.0 | 180.4 | 224.2 | 284.5 | 352.9 | 450.7 | 500.4 | 630.8 | 611.4 | 598.7 | 440.9 |
| Wood and Wood Products | 21.9 | 29.8 | 48.1 | 59.3 | 53.7 | 64.1 | 89.9 | 118.4 | 164.7 | 222.2 | 279.4 | 328.2 | 389.5 | 589.2 | 644.9 |
| Paper and Paper products | 5.8 | 11.2 | 17.6 | 24.0 | 33.8 | 40.0 | 55.1 | 69.0 | 93.1 | 123.6 | 162.4 | 191.3 | 226.1 | 337.3 | 436.1 |
| Chemicals, rubber and plastic products | 24.6 | 35.5 | 48.4 | 48.5 | 50.8 | 85.8 | 111.3 | 142.6 | 178.9 | 231.7 | 281.2 | 331.2 | 373.4 | 433.6 | 520.5 |
| Non-metallic mineral products | 4.9 | 5.8 | 6.5 | 9.1 | 11.5 | 14.3 | 18.5 | 21.9 | 30.0 | 41.0 | 51.8 | 55.3 | 61.1 | 70.8 | 91.4 |
| Basic metal products | 1.8 | 4.0 | 4.9 | 2.0 | 2.1 | 3.2 | 2.9 | 2.8 | 3.1 | 4.0 | 4.7 | 6.9 | 8.0 | 10.4 | 3.3 |
| Fabricated metal products | 15.6 | 13.6 | 18.5 | 19.5 | 18.0 | 22.9 | 23.0 | 21.0 | 21.0 | 27.7 | 35.2 | 53.6 | 69.9 | 72.7 | 21.6 |
| Electricity, Gas and Water | 93.8 | 128.6 | 214.5 | 220.1 | 246.5 | 328.0 | 445.3 | 488.3 | 595.1 | 694.7 | 922.7 | 1,165.9 | 1,345.0 | 1,512.4 | 1,804.9 |
| Construction | 122.6 | 139.1 | 226.5 | 267.8 | 320.2 | 500.5 | 728.6 | 1,067.7 | 1,590.0 | 2,321.5 | 3,216.4 | 4,703.7 | 6,692.7 | 8,811.4 | 12,468.2 |
| SECONDARY SECTOR | 513.3 | 733.1 | 1,036.4 | 1,180.1 | 1,373.3 | 1,823.1 | 2,486.9 | 3,248.6 | 4,426.1 | 5,843.9 | 7,589.2 | 9,885.3 | 12,525.1 | 15,448.8 | 20,284.4 |
| Wholesale and Retail trade | 457.7 | 691.3 | 853.9 | 1,048.7 | 1,380.3 | 1,879.8 | 2,340.5 | 3,004.1 | 3,873.8 | 4,843.7 | 5,888.9 | 6,524.7 | 7,395.5 | 8,523.5 | 10,037.0 |
| Restaurants, Bars and Hotels | 52.4 | 86.7 | 111.0 | 133.5 | 145.6 | 207.0 | 315.9 | 406.8 | 527.7 | 678.9 | 894.0 | 1,120.1 | 1,354.2 | 1,694.7 | 1,516.7 |
| Transport, Storage and Communications | 178.6 | 232.0 | 271.6 | 341.6 | 429.6 | 695.7 | 852.6 | 1,055.9 | 1,058.2 | 1,252.3 | 1,395.6 | 1,629.2 | 1,884.4 | 2,248.9 | 2,312.9 |
| Rail Transport | 18.1 | 24.1 | 22.3 | 31.9 | 36.1 | 54.9 | 72.7 | 82.7 | 89.5 | 100.8 | 93.8 | 94.7 | 91.9 | 79.0 | 59.7 |
| Road Transport | 73.0 | 94.4 | 112.0 | 138.5 | 175.4 | 255.2 | 311.3 | 334.3 | 393.9 | 464.0 | 543.0 | 640.4 | 755.7 | 881.8 | 1,052.6 |
| Air Transport | 28.0 | 36.5 | 44.7 | 53.1 | 64.8 | 99.0 | 133.7 | 129.7 | 152.7 | 203.0 | 243.8 | 356.0 | 488.6 | 573.4 | 419.4 |
| Communications | 59.4 | 77.1 | 92.6 | 118.0 | 153.3 | 226.6 | 334.9 | 509.1 | 432.1 | 484.6 | 515.0 | 538.2 | 643.3 | 794.8 | 781.2 |
| Financial Intermediaries and Insurance | 309.3 | 348.1 | 451.1 | 546.8 | 676.7 | 982.2 | 1,238.8 | 1,483.1 | 1,847.7 | 2,282.7 | 2,771.5 | 3,246.9 | 3,647.2 | 4,510.3 | 5,577.7 |
| Real Estate and Business services | 161.9 | 220.2 | 294.1 | 381.7 | 486.2 | 680.6 | 832.8 | 1,041.2 | 1,341.2 | 1,691.8 | 1,979.4 | 2,296.4 | 2,678.2 | 3,137.7 | 3,686.2 |
| Community, Social and Personal Services | 250.6 | 281.5 | 411.7 | 511.4 | 666.8 | 921.3 | 1,297.1 | 1,478.4 | 1,828.9 | 2,122.8 | 2,808.9 | 3,482.2 | 4,324.1 | 5,485.1 | 6,841.8 |
| Public Administration and Defence | 143.1 | 128.7 | 216.0 | 268.7 | 328.6 | 500.1 | 610.2 | 646.8 | 752.2 | 797.3 | 1,002.2 | 983.0 | 1,259.3 | 1,448.1 | 1,483.8 |
| Education | 68.9 | 99.9 | 127.2 | 158.3 | 192.1 | 256.1 | 294.3 | 486.9 | 698.6 | 867.7 | 1,254.2 | 1,842.6 | 2,332.3 | 3,082.8 | 4,097.4 |
| Health | 16.2 | 24.4 | 29.3 | 34.0 | 84.1 | 107.0 | 175.5 | 203.6 | 252.4 | 292.8 | 338.8 | 389.9 | 445.2 | 576.9 | 650.8 |
| Recreation, Religious/Culture | 10.4 | 9.4 | 15.7 | 19.5 | 23.9 | 36.4 | 52.7 | 48.5 | 39.1 | 31.7 | 59.3 | 67.1 | 81.8 | 104.7 | 134.5 |
| Personal services | 12.0 | 19.0 | 23.5 | 28.9 | 38.0 | 51.7 | 64.4 | 82.7 | 106.6 | 133.3 | 161.5 | 179.6 | 203.5 | 234.6 | 276.2 |
| TERTIARY SECTOR | 1,390.4 | 1,859.9 | 2,383.4 | 2,963.6 | 3,795.2 | 5,316.6 | 6,877.8 | 8,479.5 | 10,477.5 | 12,864.2 | 15,716.4 | 18,279.4 | 21,383.6 | 25,488.1 | 28,772.3 |
| Less: Imputed Banking Service Charges | (177.7) | (200.8) | (259.2) | (314.2) | (388.9) | (564.4) | (711.9) | (858.1) | (1,061.8) | (1,311.8) | (1,592.8) | (1,865.9) | (2,096.0) | (2,592.0) | (3,205.4) |
| TOTAL GROSS VALUE ADDED | 2,648.0 | 3,481.4 | 4,528.1 | 5,335.7 | 6,875.4 | 9,023.6 | 11,793.7 | 14,693.6 | 18,651.2 | 23,774.0 | 29,447.4 | 35,711.6 | 42,989.4 | 51,438.4 | 61,126.6 |
| Import duties/Net Indirect Taxes/Taxes on Products | 359.1 | 468.8 | 612.0 | 692.2 | 802.3 | 1,097.7 | 1,480.0 | 1,630.8 | 1,899.9 | 2,219.1 | 2,594.2 | 2,849.2 | 3,202.4 | 3,640.4 | 3,199.5 |
| TOTAL G.D.P. AT MARKET PRICES | 3,005.1 | 3,950.2 | 5,140.2 | 6,027.9 | 7,477.7 | 10,121.3 | 13,193.7 | 16,324.4 | 20,551.1 | 25,993.1 | 32,041.6 | 38,560.8 | 46,191.8 | 55,078.8 | 64,326.1 |

Tax Revenue collection from 1995 to 2009

Source

Zambia Revenue Authority

Units

ZMK billions

Notes

The 2001 figure includes exceptional revenue of K191 billion or 1.5 percent of GDP, being debt swap with ZESCO.

The 2008 excludes medical levy collection of K12.5 billion

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001* | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|--------------------------------------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Income Tax | 192.1 | 244.0 | 332.0 | 423.8 | 480.2 | 633.5 | 945.3 | 1,243.5 | 1,621.3 | 2,037.7 | 2,461.5 | 2,966.6 | 3,841.4 | 4,698.8 | 5,072.6 |
| Company Tax | 34.2 | 54.7 | 78.5 | 85.7 | 91.4 | 125.2 | 195.5 | 279.4 | 290.7 | 333.2 | 454.5 | 694.6 | 1,222.5 | 1,431.5 | 1,375.8 |
| Pay As You Earn (PAYE) | 104.7 | 118.4 | 193.4 | 271.1 | 320.9 | 433.8 | 649.7 | 828.6 | 1,129.3 | 1,483.4 | 1,721.9 | 1,939.2 | 2,199.0 | 2,565.3 | 2,923.9 |
| Withholding Tax | 24.4 | 54.2 | 41.2 | 49.8 | 54.5 | 70.6 | 93.5 | 136.0 | 193.2 | 216.7 | 245.9 | 274.0 | 352.4 | 442.9 | 538.0 |
| Mineral Royalty | 28.9 | 16.7 | 18.8 | 17.1 | 13.3 | 3.8 | 6.6 | 2.5 | 8.1 | 4.4 | 39.2 | 58.8 | 67.5 | 259.1 | 234.9 |
| Domestic Goods & Services | 70.3 | 277.7 | 342.5 | 390.3 | 471.5 | 513.1 | 676.7 | 773.0 | 858.4 | 1,062.2 | 1,394.6 | 1,385.6 | 1,231.7 | 993.7 | 1,330.6 |
| Excise Duties | 27.6 | 134.5 | 163.8 | 190.1 | 223.0 | 280.6 | 384.7 | 427.3 | 480.7 | 610.1 | 771.7 | 827.2 | 1,206.8 | 1,424.4 | 1,023.4 |
| Domestic Value-Added Tax (VAT) | 42.7 | 143.2 | 178.7 | 200.2 | 248.5 | 232.5 | 292.0 | 345.7 | 377.7 | 452.3 | 622.9 | 558.4 | 24.9 | (430.7) | 307.1 |
| Trade Taxes | 288.1 | 203.5 | 239.0 | 250.4 | 336.3 | 592.9 | 826.6 | 829.2 | 1,069.7 | 1,454.2 | 1,665.7 | 1,977.4 | 3,120.7 | 3,973.3 | 3,257.0 |
| VAT on Imports | 18.0 | 104.7 | 104.6 | 103.5 | 180.6 | 344.7 | 488.6 | 470.9 | 641.5 | 909.1 | 1,010.2 | 1,233.1 | 2,204.3 | 2,631.7 | 2,168.4 |
| Import Tariffs | 270.1 | 98.8 | 134.3 | 147.0 | 155.7 | 248.2 | 338.0 | 358.3 | 428.2 | 545.1 | 651.9 | 742.4 | 914.1 | 1,159.9 | 1,072.0 |
| Export Duty | - | - | - | - | - | - | - | - | - | - | 3.6 | 1.9 | 2.3 | 18.7 | 16.5 |
| Import Declaration Fee | - | - | 41.0 | 25.7 | 1.7 | - | - | - | - | - | - | - | - | - | - |
| Tax Revenue | 550.5 | 725.2 | 954.4 | 1,090.3 | 1,289.6 | 1,739.5 | 2,448.6 | 2,848.8 | 3,549.5 | 4,554.3 | 5,521.8 | 6,329.6 | 8,193.8 | 9,665.8 | 9,660.1 |

2001 - 2009 PARLIAMENT TARGETS AND OUTTURN

| | 2001 | 2001 | 2002 | 2002 | 2003 | 2003 | 2004 | 2004 | 2005 | 2005 | 2006 | 2006 | 2007 | 2007 | 2008 | 2008 | 2009 | 2009 |
|---------------------------|----------|---------|----------|---------|----------|---------|----------|---------|----------|---------|----------|---------|----------|----------|----------|----------|----------|----------|
| | Target | Outturn | Target | Outturn | Target | Outturn | Target | Outturn | Target | Outturn | Target | Outturn | Target | Outturn | Target | Outturn | Target | Outturn |
| | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) | (Kbn) |
| Tax Revenue | 2,329.4 | 2,648.0 | 3,181.3 | 2,888.8 | 3,549.5 | 3,131.3 | 4,264.3 | 3,711.0 | 5,521.8 | 6,329.6 | 8,193.8 | 9,665.8 | 11,176.7 | 13,081.4 | 15,448.8 | 18,279.4 | 21,383.6 | 25,488.1 |
| Income Tax | 518.3 | 945.3 | 1,159.3 | 1,243.5 | 1,471.1 | 1,621.3 | 2,037.7 | 2,431.5 | 2,861.5 | 3,391.5 | 3,861.2 | 4,440.0 | 5,141.4 | 4,955.4 | 4,698.8 | 4,929.4 | 5,072.6 | 5,072.6 |
| Company Tax | 11.2 | 110.5 | 212.2 | 214.1 | 220.7 | 254.4 | 332.2 | 444.3 | 454.5 | 474.7 | 592.5 | 722.2 | 1,222.5 | 1,431.5 | 1,375.8 | 1,375.8 | 1,375.8 | 1,375.8 |
| Pay As You Earn (PAYE) | 92.1 | 649.7 | 777.9 | 825.6 | 911.1 | 1,028.3 | 1,483.4 | 1,731.9 | 1,721.9 | 2,102.2 | 2,199.0 | 2,199.0 | 2,199.0 | 2,199.0 | 2,199.0 | 2,199.0 | 2,199.0 | 2,199.0 |
| Withholding Tax | 27.6 | 54.2 | 41.2 | 49.8 | 54.5 | 70.6 | 93.5 | 136.0 | 193.2 | 216.7 | 245.9 | 274.0 | 352.4 | 442.9 | 538.0 | 538.0 | 538.0 | 538.0 |
| Mineral Royalty | 4.1 | 16.7 | 18.8 | 17.1 | 13.3 | 3.8 | 6.6 | 2.5 | 8.1 | 4.4 | 39.2 | 58.8 | 67.5 | 259.1 | 234.9 | 234.9 | 234.9 | 234.9 |
| Domestic Goods & Services | 70.3 | 277.7 | 342.5 | 390.3 | 471.5 | 513.1 | 676.7 | 773.0 | 858.4 | 1,062.2 | 1,394.6 | 1,385.6 | 1,231.7 | 993.7 | 1,330.6 | 1,330.6 | 1,330.6 | 1,330.6 |
| Excise Duties | 27.6 | 134.5 | 163.8 | 190.1 | 223.0 | 280.6 | 384.7 | 427.3 | 512.1 | 592.1 | 771.7 | 943.1 | 1,212.5 | 1,404.8 | 1,353.4 | 1,353.4 | 1,353.4 | 1,353.4 |
| Domestic Value Added Tax | 32.7 | 262.0 | 178.7 | 200.2 | 248.5 | 232.5 | 292.0 | 345.7 | 346.8 | 470.0 | 622.9 | 622.9 | 622.9 | 622.9 | 622.9 | 622.9 | 622.9 | 622.9 |
| Trade Taxes | 72.2 | 835.6 | 875.0 | 895.2 | 1,245.0 | 1,063.2 | 1,447.0 | 1,454.3 | 1,714.4 | 1,865.7 | 2,088.2 | 2,086.4 | 2,084.4 | 2,084.4 | 2,084.4 | 2,084.4 | 2,084.4 | 2,084.4 |
| Duties on Imports | 42.1 | 428.6 | 410.0 | 472.9 | 528.0 | 541.5 | 666.0 | 689.1 | 781.0 | 1,070.2 | 1,212.7 | 1,237.0 | 1,237.0 | 1,237.0 | 1,237.0 | 1,237.0 | 1,237.0 | 1,237.0 |
| Import Tariffs | 32.7 | 335.0 | 315.0 | 355.3 | 355.9 | 428.2 | 526.0 | 545.1 | 593.5 | 651.0 | 722.3 | 722.3 | 722.3 | 722.3 | 722.3 | 722.3 | 722.3 | 722.3 |
| Export Duty | | | | | | | | | | | | | | | | | | |
| Total GDP | 13,139.7 | | 14,265.4 | | 16,479.3 | | 25,597.7 | | 32,341.1 | | 39,481.0 | | 45,759.0 | | 53,708.5 | | 64,326.0 | |
| Revenue as % of GDP | 18.6% | | 17.5% | | 17.3% | | 17.6% | | 17.2% | | 18.1% | | 17.9% | | 18.0% | | 18.0% | |

This image shows a full-page view of a blank sheet of lined notebook paper. The top portion of the page features a solid yellow background with the word "NOTES" written in bold black capital letters. Below this header, the rest of the page is white and filled with horizontal blue lines, typical of standard notebook paper. There are no margins, text, or other markings on the page.



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.



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