ANNUAL REPORT 2010

ZAMBIA REVENUE AUTHORITY

Working To Serve You Efficiently

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ZAMBIA REVENUE AUTHORITY
Working To Serve You Efficiently

CHAIRMAN OF THE GOVERNING BOARD

30th June 2011

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

Honourable Minister,

I have the pleasure of presenting to you, on behalf of the Governing Board, the 16th Annual Report of the Zambia Revenue Authority, covering the financial year 1st January 2010 to 31st December 2010.

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,

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

Vision

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

Mission

“To maximise 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
ASYCUDA	Automated System for Customs Data
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 for Africa
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 Traffic 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
ZANACO	Zambia National Commercial Bank
ZDA	Zambia Development Agency
ZRA	Zambia Revenue Authority
ZRAIC	Zambia Revenue Authority Integrity Committee

Corporate Profile

The Zambia Revenue Authority (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 (the 'Government'). 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 Officer 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 the 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 administered by the Authority are as follows:

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

Corporate Values and Stakeholder Expectations

In executing its mission statement, the Authority uses its Corporate Plan which outlines the corporate objectives that ensure that the revenue system remains sustainable. The Authority subscribes to performing its roles using the following values: integrity, professionalism, fairness, equity, courtesy, goal orientation, team work, and value for money.

The Authority has a Taxpayer Charter which outlines the service standards expected from the Authority as well as taxpayers' rights and obligations.

The following are the obligations expected from taxpayers:

- cooperating with ZRA officers at all times;
- submitting tax returns and paying taxes on time;
- providing honest and accurate information to ZRA, including current contact addresses;
- demanding official ZRA receipts on all payments; and
- not offering ZRA Officers any payments other than those authorised by law.

Stakeholders

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

- the Government;
- Taxpayers;
- the Zambian business community;
- Banks and other financial institutions;
- COMESA, SADC, WTO ;
- Persons transacting business with Zambia, or transiting goods through Zambia;
- Tourists, travellers and cross-border traders;
- the donor community and other multilateral agencies; and
- Interest groups.

Governing Board

Mr. Christopher L. Mundia S.C.
Chairman

Dr. Caleb Fundanga
Vice Chairman

Mrs. Sue M. S. Mwaanza
Member

Mr. Likolo Ndalamei
Member

Mrs. Gertrude M. Imbwae
Member

Ms. Mwangala Zaloumis
Member

Mr. Elijah C. Banda S.C.
Member

Mr. Geoffrey Sakulanda
Member

Mrs Mukwandi Chibesakunda
Member

Executive Management

Mr. Wisdom M. Nhekairo
Commissioner General

Mrs. Priscilla Banda
Acting Commissioner
Domestic Taxes

Mr. Muyangwa Muyangwa
Commissioner
Customs Services

Ms. Nana Mudenda
Commissioner
Corporate Services and
Acting Board Secretary

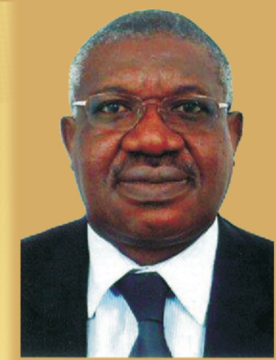
Ms. Inonge Wambulawae
Director Internal Audit

Dr. Samuel Bwalya
Director Research &
Planning

Mrs. Roselyne Raelly
Director Human Resource

Mr. Kabaye Mwale
Director Finance

Senior Management Team



Mr. Wisdom M. Nhekairo
Commissioner General

Mr. Muyangwa Muyangwa
Commissioner - Customs Services

Mrs. Priscilla Banda
Acting Commissioner
Domestic Taxes

Ms. Nana Mudenda
Commissioner - Corporate Services
and Acting Board Secretary

Mrs. Roselyne Raelly
Director Human Resource

Mr. Kabaye Mwale
Director Finance

Ms. Inonge Wambulawae
Director Internal Audit

Mr. Dingani C. Banda
Deputy Commissioner
Operations

Mr. Mambwe Kaenga
Deputy Commissioner HQ

Mr. Tenthani I. Banda
Director Administration

Mr. Yakomba Yavwa
Director Information
Technology

Mr. Chris Habeenzu
Director Design & Monitoring

Mr. Chansa Shambuluma
Director Small & Medium Taxpayer
Office

Mr. Sonny Lingómba
Director Special Duties

Mr. Peter Phiri
Acting Director Large Taxpayer Office

Dr. Samuel Bwalya
Director Research & Planning

Chairman's Statement

I am delighted to give an overview of the operations of the Authority for the fiscal year ended 31st December 2010. This Annual Report briefly discusses the country's economic performance, operational performance, corporate governance, and the financial statements of the Authority.

The year 2010 saw a resurgence in economic activities following the global economic crisis recently experienced. In particular, the Zambian economy registered the highest economic growth ever recorded in the last 30 years, at 7.6 percent, after adjusting for inflation. Mining and Quarrying and Transport, Storage and Communications recorded the top two growth rates at 15.2 percent and 14.9 percent respectively. The other notable growth rates were recorded in the Restaurants, Bars and Hotels Sector at 9.6 percent and Construction at 8.1 percent.

The overall economic environment in the country remained relatively stable as evidenced by the inflation rate which declined throughout the year to end at 7.9 percent. Likewise, the commercial bank lending rates fell by almost three percentage points. However, the exchange rate fluctuated during the year depreciating during the first half of the year before appreciating to K4,743 per dollar by the end of the year. This was largely due to the 40 percent rise in copper prices during the second half of 2010.

The ratio of tax revenue to GDP (which measures the responsiveness of the tax system to economic growth) increased to 16.9 percent from 15.0 percent registered in 2009; mainly on account of the favourable macroeconomic environment. Given the drive to move the tax system away from a reliance on trade taxes, it was encouraging to note that the share of revenues from income taxes continued to increase while the contribution from consumption taxes remained stable compared to 2009.

The Authority continued in its efforts to modernise its operations. The refocus to taxpayer orientation rather than tax type saw the embedding of the Large Taxpayer Office and the Small and Medium Taxpayer Office into

the operational structure of the Authority.

The Board remains committed to ensuring that the Authority consolidates on the gains made so far to ensure that we execute our mandate of maximising revenue collection in a cost effective and efficient manner. It is my honour to thank the Royal Norwegian Government for their efforts in building capacity in the auditing of mining companies. I would also like to thank the ICF for its support in enhancing tax administration through the training of staff in customer service and the allocation of resources for the installation of the Call Centre.

I wish to commend the Governing Board, the Ministry of Finance and National Planning, Cooperating Partners and all the compliant taxpayers for helping us attain our mandate during the year under review. I further wish to commend the management and staff of the Authority for the hard work done in the year under review.

Christopher L. Mundia S.C.
CHAIRMAN OF THE GOVERNING BOARD

Commissioner General's Statement

This report highlights the activities undertaken by the Authority in the year 2010. It covers information on the corporate profile, priorities and programmes carried out during the year as well as the achievements and constraints faced by the Authority over the year.

The Authority continued to provide support to the Government in all its programmes on tax policy and administration. In line with its mandate, the Authority's priority was to meet its revenue target as set by the Government. In 2010, the Authority collected total revenue amounting to K13,161 billion against Parliament's target of K11,405 billion, thereby exceeding the target by K1,757 billion or 15.4 percent. This performance was premised on an improvement in the economic growth of key sectors in the economy as well as improvements in taxpayer compliance due to the on-going efforts of the Authority.

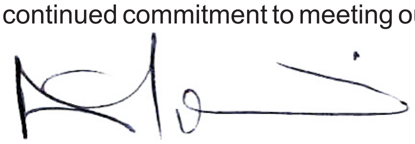
Consolidating on our modernisation efforts that commenced in 2006, the Authority continued its programme to increase efficiency and effectiveness of operations. After the establishment of the Design and Monitoring Office, Large Taxpayer Office, and Small and Medium Taxpayer Office, we made progress on the next major phase of the programme: the implementation of a new Tax Administration System. With support from the ICF, we provided training in customer services, developed a proposal document for the new tax administration system, and launched a nation-wide communication campaign.

The effectiveness of our regional tax offices was also strengthened as eleven more tax offices were connected to our nation-wide communication and data system via optic fibre technology. In addition, progress was made in the implementation of SAP modules for use by our Administration, Finance and Human Resources Teams. In collaboration with the COMESA Secretariat, we launched the Simplified Trade Regime which is intended to facilitate the clearance of low value goods and reduce costs incurred by our taxpayers.

During the year under review, the Authority employed several compliance strategies in order to achieve its revenue collection mandate and service delivery goals. These included provision of taxpayer education and advisory services, tax audits, debt management, litigation, investigation and prosecutorial activities. These efforts resulted in the Authority receiving 60 percent more tax returns than in 2009. This indicates a significant improvement in taxpayer compliance.

We shall continue to encourage voluntary tax compliance and develop strategic partnerships with our taxpayers. As we undertake these initiatives, we shall remain mindful of the core expectations from the Government and all stakeholders.

On behalf of the Authority, I would like to extend my gratitude to the Minister of Finance and National Planning and our stakeholders for their guidance and support, without which the Authority's achievement would not have been possible. I particularly thank the Governing Board, management and staff for their continued commitment to meeting our mandate.



Wisdom M. Nhekairo
COMMISSIONER GENERAL

Strategic Objectives

The Corporate Plan for 2010 was for the interim period of one year only. It was an extension of the Medium-Term Plan that was in place for the three years ending 2009 and was designed to realign the Authority planning process in accordance with the change in the national budgeting cycle as well as to allow for time to prepare the next Medium-Term Plan to run from 2011 through to 2013. Therefore, it had the same strategic objectives as the immediate past Medium-Term Plan:

- *Strategic Objective 1*: To assess, charge, levy and collect all revenue due to the Government through effective enforcement and compliance strategies;
- *Strategic Objective 2*: To design and implement business strategies that will ensure that all revenue collected is, as soon as reasonably practicable, credited to the Treasury;
- *Strategic Objective 3*: To increase and sustain the growth and productivity of revenue by developing systems and procedures that encourage investment and growth of the economy;
- *Strategic Objective 4*: To improve performance by attracting, retaining and motivating human resource;
- *Strategic Objective 5*: To promote good governance through the design and implementation of policies, systems and procedures;
- *Strategic Objective 6*: To improve our service delivery by implementing the risk management process; and
- *Strategic Objective 7*: To improve operational efficiency by creating, strengthening and streamlining inter-institutional linkages and partnerships.

Achievements made during the Year

In line with, its strategic objectives the Authority made the following achievements:

Revenue Performance

The Authority exceeded its revenue target by K1,756.5 billion or 15.4 percent above target.

Computerisation

Furthermore, the Authority upgraded the SAP and, implemented the Human Capital Management and Payroll Modules. This system intends to harmonise records between the Finance and Human Resource Divisions. Consequently, there was a reduction in manual procedures which eliminated inconsistencies in financial and human resource records.

The new interface between the Tax Administration and Refunds Processing System (TARPS) and the National Cashiering System resulted in a decline in data errors.

Trade Facilitation

The Authority with its counter part, the Zimbabwean Revenue Authority, adopted and implemented stream-lined procedures for the One-Stop Border Post

Taxation of International Transactions

The Authority strengthened its capacity to audit computerised accounts, international transactions of multinational companies, taxation of services and electronic commercial transactions.

Major Constraints encountered in 2010

Major Constraints encountered in 2010

During the year under review, the Authority encountered several constraints and challenges (all related to inadequate resources).

Resource Constraints

The increased demand on Government to finance various economic and social programmes has resulted in fewer resources being available to support institutions that rely on Government for support, such as the Authority. While the Authority has in recent years received its budgeted allocations, the appropriated amounts have not been adequate to cover all operational expenditures such as staff related costs, audits and enforcement activities and investment in infrastructure and maintenance. Dilapidated physical infrastructure, frequent malfunctioning of Information Communication and Technology Systems and reduced inspection and enforcement effort, tax evasion and revenue leakages may undermine revenue performance in future despite the recent economic achievements.

Despite this resource constraint, the Authority stepped up its efforts to curb smuggling and corruption, VAT compliance visits, debt collection, enforcement of taxation in the informal sector and improved taxpayer education and taxpayer services. Increased funding to the Authority can enhance enforcement and compliance and thus mitigate revenue leakages and improve revenue collection.

Economic Performance

Economic Performance

Gross Domestic Product (GDP)

The year 2010 saw the economy recording the highest growth rate in the last three decades. Latest statistics show that economy grew, in real terms, by 7.6 percent in 2010 compared to 6.4 percent in the year 2009. In nominal terms, the GDP grew from K64, 615.6 billion in 2009 to K77, 679.4 billion in 2010. Sectors which grew the most were: Mining and Quarrying at 15.2 percent; Transport, Storage and Communications sector at 14.9 percent; Restaurants, Bars and Hotels at 9.6 percent; Construction at 8.1 percent; Electricity, Gas and Water at 7.4 percent; Agriculture, Forestry and Fishing at 6.6 percent; Financial Institutions and Insurance at 6.0 percent; Community, Social and Personal Services at 5.3 percent; while Real Estate and Business Services grew at 3.0 percent; and Wholesale and Retail Trade grew at 4.3 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 15.3 percent and 12.5 percent respectively The Construction and Manufacturing Sectors shares were at 11.8 and 9.2 percent respectively. Other sectors contributed to GDP as follows: Mining and Quarrying at 9.9 percent; Transport Storage and Communications at 9.9 percent; Community, Social and Personal Services at 8.6 percent; Real Estate and Business Services at 7.7 percent; Financial Institutions and Insurance at 7.1 percent; Electricity, Gas and Water at 2.4 percent; and Restaurants, Bars and Hotels at 2.3 percent. Table 1 below shows sector growth and shares in 2010 and 2009.

Table 1: Growth and Share of GDP by economic activity in 2010 and 2009

Kind of economic activity	Percentage growth		Percentage share in GDP	
	2010	2009	2010	2009
Wholesale and Retail Trade	4.3	2.3	15.3	15.8
Agriculture, Forestry and Fishing	6.6	7.2	12.5	12.6
Construction	8.1	9.5	11.8	11.7
Mining and Quarrying	15.2	20.3	9.9	9.3
Transport, Storage and Communications	14.9	7.6	9.9	9.2
Manufacturing	4.1	2.2	9.2	9.5
Community, Social and Personal Services	5.3	8.6	8.6	8.8
Real Estate and Business Services	3.0	2.8	7.7	8.1
Financial Institutions and Insurance	6.0	5.2	7.1	7.3
Electricity, Gas and Water	7.4	6.8	2.4	2.4
Restaurants, Bars and Hotels	9.6	(13.4)	2.3	2.3
TOTAL	**7.6**	**6.4**	**100.0**	**100.0**

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

Source: Central Statistics Office

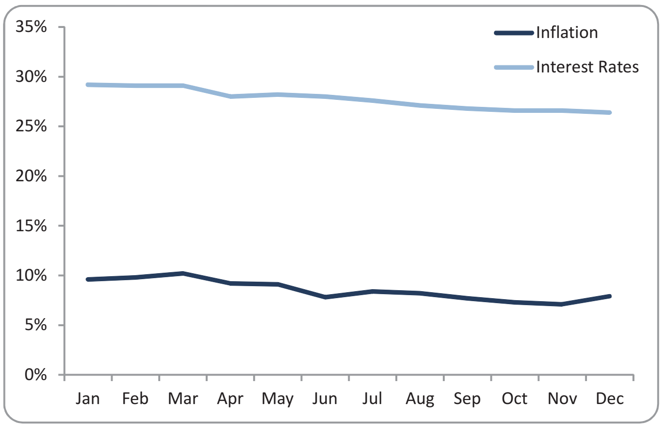
Inflation

The year under review started with a year-on-year inflation rate of 9.6 percent which fell steadily to close the year at 7.9 percent against the year-end target of 7.5 percent (see Figure 1). Of the total 7.9 percent annual inflation recorded in December 2010, food products accounted for 5.7 percentage points while non-food items in the Consumer Price Index accounted for 2.2 percentage points.

Interest Rate

During the year 2010, the commercial bank lending rates fell gradually from 29.2 percent in January 2010 to 26.4 percent in December 2010. The fall in bank lending rates can be attributed to the decline in inflation rate over the year and the increased competition in the banking sector which saw the entry of two new banks into the Zambian market (see Figure 1).

Figure 1: Inflation and interest rates in 2010

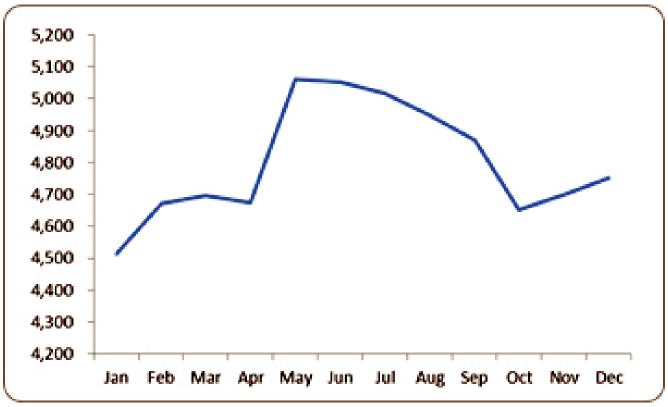


Source: Bank of Zambia

Exchange Rate

The Kwacha to US Dollar exchange rate opened the year at K4,514 in January 2010. It steadily depreciated to K5,054 in June 2010. The depreciation of the Kwacha in the first half of the year was as a result of the surge in crude oil prices while copper prices remained relatively stable. However, the second half of the year saw the Kwacha appreciate reaching K4,743 in December 2010. This was on account of increased copper earnings as the prices of copper surged on the international market. In addition, this increased foreign investment pledges which increased optimism about the economy and consequently the value of the Kwacha. This resulted in an average exchange rate of K4, 779 per US Dollar compared to K5, 044 per US Dollar in the year 2009 (see Figure 2).

Figure 2: Exchange rate in 2010



Source: Bank of Zambia

Commodity Prices

International commodity prices especially those of copper and oil affect the performance of the economy and inevitably revenue collection. During the year under review, the average price of copper was US$ 7, 542 per metric tonne compared to US $ 5,159 in the year 2009 while the average price of cobalt increased from US$ 26, 654 per metric tonne in 2009 to US $35, 408 per metric tonne in 2010. The same was true for crude oil whose average price increased to US$78.7 per barrel in 2010 from US$61.3 per barrel in 2009 (see Table 2). The surge in commodity prices was as a result of demand on the international market especially from China and India and on-going supply constraints.

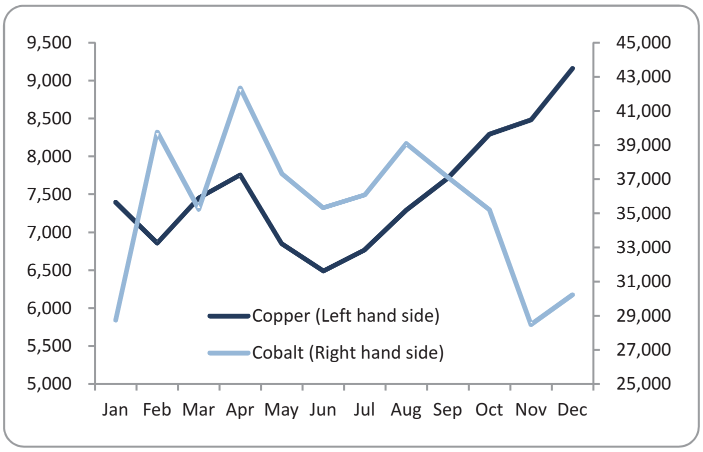
Table 2: Commodity prices in 2010 and 2009

Year	Copper price US$ per metric tonne		Cobalt price US$ per metric tonne		Oil price US$ per barrel	
	2010	2009	2010	2009	2010	2009
Average price	7 542	5 159	35 408	26 654	79	61
High	9 159	6 991	42 340	34 459	89	77
Low	6 490	3 225	28 477	8 499	75	42

Source: Bank of Zambia

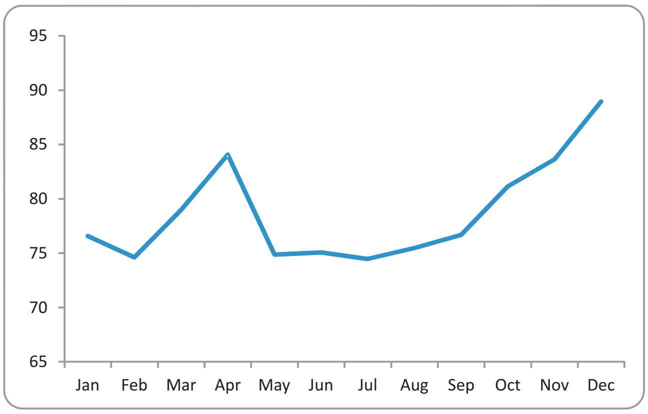
Figures 3 and 4 show monthly trends in the prices of copper, cobalt and crude oil in 2010. The maximum price of cobalt was recorded in April 2010, while that of copper and crude oil was recorded in December 2010. In general, the prices of copper and crude oil experienced an upward trend while that of cobalt gradually fell after attaining a maximum in April 2010.

Figure 3: Price of copper and cobalt in 2010 (US$ per metric tonne)



Source: Bank of Zambia

Figure 4: Price of crude oil in 2010 (US$ per barrel)



Source: Bank of Zambia

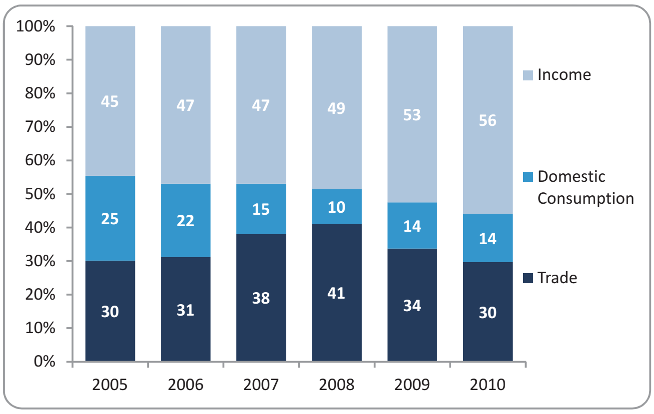
Operational Performance

Operational Performance

Structure of the revenue system in 2010

Income taxes remain the major source of tax revenue for Government and have accounted for 56 percent of the total tax revenue in the last two years, as shown Figure 5. The trend analysis of revenue contribution to total tax revenue provides useful insight for long term tax structure for Zambia. It reveals an interesting pattern that is heavily dependent on income taxes and trade taxes.

Figure 5: Proportion of revenues from each tax group, 2005 to 2010



During the year under review, income tax contributed 55.9 percent of the tax revenue, followed by trade taxes (29.7 percent) and taxes on domestic goods and services (14.4 percent). PAYE in this tax category accounted for 52.6 percent of income tax revenues.

In 2010, trade taxes were the second major source of tax revenue. Between 2009 and 2010, the share of trade taxes decreased from 33.7 to 29.7 percent. The main driver of trade taxes in 2009 was import VAT which accounted for 67.6 percent of the trade tax revenue.

Taxes from domestic goods and services (consumption taxes), not including import VAT, were the smallest source of tax revenue. The share of taxes on domestic goods and services increased from 13.8 percent in 2009 to 14.4 percent in 2010. The main driver in this tax category was excise duty, which in 2010, accounted for 72.7 percent of consumption tax revenues.

One of the major threats to tax revenue collection is the on-going reduction in import tariffs mandated by regional and multilateral trade agreements. Whilst it is a threat in the short term, regional integration still offers opportunities and has the potential to boost economic growth in Zambia and thereby may increase the domestic revenue base in the long run. It is a challenge for the Authority to translate the economic growth potential in Free Trade Areas (FTA) into higher tax revenue collections in the future. Given the threat on trade taxes, the Authority continued its efforts to increase the contribution from domestic consumption and income taxes.

Tax Revenue Collection in 2010

During the year, the Authority collected total revenue amounting to K13, 161.4 billion against a Parliament target of K11, 404.8 billion, thereby registering a surplus of K1,756.5 billion or 15.4 percent above target. Compared with 2009, the 2010 revenue collection increased by K3, 482.8 billion. The increase in revenue collection was largely driven by revived mining activities.

Table 3: Tax revenue performance in 2010 (K billions)

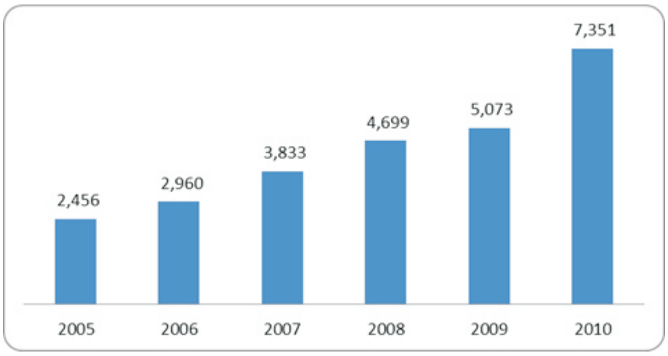
Tax Types	Actual outturn	Parliament Target	Variance of actual vs target	Percent variance of target
Income Tax	7 326.3	5 729.6	1 596.7	27.9
Company Tax	2 421.7	1 363.1	1 058.6	77.7
Personal Income Tax	4 492.7	4 122.3	370.4	9.0
Pay As You Earn (PAYE)	3 866.3	3 249.9	616.4	19.0
Withholding Tax	626.3	872.4	(246.1)	(28.2)
Mineral Royalty	412.0	244.2	167.8	68.7
Domestic Goods & Services	1 887.3	1 898.0	(10.6)	(0.6)
Excise Duty	1 372.4	1 397.7	(25.3)	(1.8)
Domestic VAT	515.0	500.3	14.7	2.9
Trade Taxes	3 911.8	3 757.5	154.4	4.1
Import VAT	2 644.6	2 439.3	205.3	8.4
Import Duty	1 262.6	1 300.1	(37.6)	(2.9)
Export Duty	4.7	18.0	(13.4)	(74.0)
Non-tax revenues	35.9	19.8	16.1	168.2
Medical Levy	24.3	13.8	10.5	76.1
Motor Vehicle Fees	11.6	6.0	5.6	92.1
Total revenue	**13 161.4**	**11 404.8**	**1 756.5**	**15.4**

The economic recovery, from the global crisis that had adversely affected the revenue base, caused a notable increase in tax revenue in the year under review. The surplus was largely attributable to higher collections from income taxes. In particular, company tax, PAYE, mineral royalty, import VAT and medical levy performed above their targets by K1, 058.6 billion, K616.4 billion, K167.8 billion, K205.3 billion and K10.5 billion respectively. The following section discusses our revenue performance against the Parliament target by tax type.

Income Taxes

During the year under review, income tax revenue was K7,350.6 billion against the Parliament target of K5,743.4 billion which was 28.0 percent above target.

Figure 6: Trend in income tax collections, 2005 to 2010 (K billions)

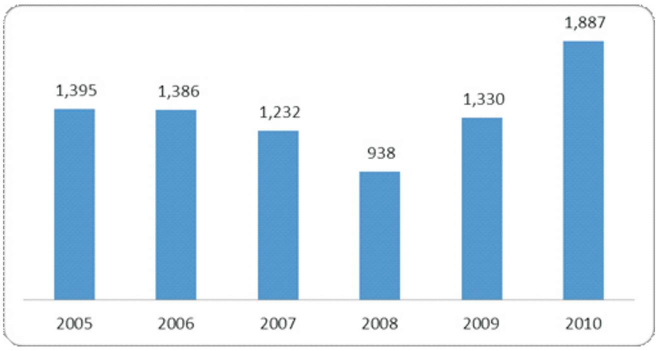


Of this amount, K2,421.7 billion was company tax (32.9 percent of income tax revenue), K3, 866.3 billion was PAYE (52.6 percent), K626.3 billion was withholding tax (8.5 percent) and K412.0 billion was mineral royalty (5.6 percent). The favourable performance of company tax was attributed to increased payments from the mining sector and increased compliance activities, such as increased audits and debt collection from companies. Like company tax, 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 performance of mineral royalty on the other hand was attributed to favourable commodity prices on the world market and increased copper and cobalt production. However, the underperformance of withholding tax was attributed to a fall in income from interest and dividends and low compliance from sectors such Real Estate and Business Services.

Taxes on Domestic Goods and Services

Taxes on domestic goods and services comprise excise duty and domestic VAT. Collections have averaged K1,361 billion between 2005 and 2010 (see Figure 7).

Figure 7: Trend in domestic goods and services collections, 2005 to 2010 (K billions)



During the year under review, total collections from these taxes amounted to K1,887.3 billion and were below target by K10.6 billion or 0.6 percent. Within this category, excise duty contributed K1,372.4 billion, but was below target by K25.3 billion or 1.8 percent while domestic VAT collection recorded K515.0 billion and was K14.7 billion or 2.9 percent above target.

The underperformance of excise duty was atttributed to low compliance levels and inefficiencies in the revenue collection. The Authority has, among others, set up a speciliased unit to address the underperformance in excise duty.

The performance of domestic VAT was favourable in comparison to the previous year. This improvement was as a result of the implementation of some administrative reforms to enhance VAT compliance by the Authority. As a result, there was an increase in payment returns and the timely follow-up of unaccompanied returns.

International Trade Taxes

The trend in trade tax collections has been upward since 2005 until 2009 when a fall was experienced, mainly as a result of the global economic crisis (see Figure 8). A total of K3, 911.8 billion was collected from trade taxes during the period under review and was above target by K154.4 billion or 4.1 percent.

Figure 8: International trade taxes collections, 2005 to 2010 (K billions)

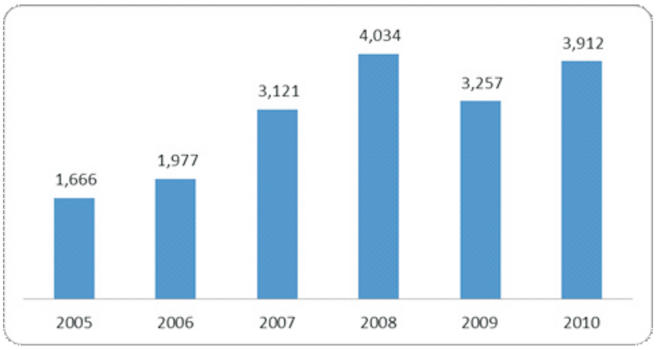
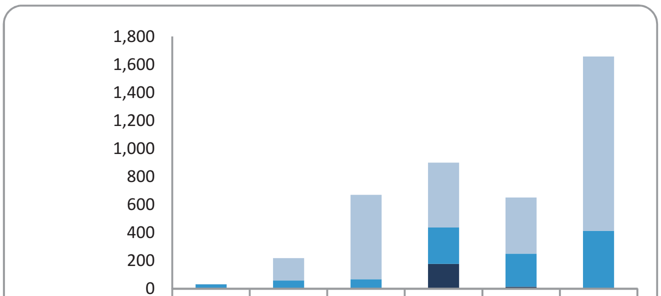


Figure 9: Tax revenues from the Mining Sector (K billions)



	2005	2006	2007	2008	2009	2010
Company Tax	1	160	603	464	401	1245
Mineral Royaty	32	59	68	259	235	412
Export Duty				178	15	2

Most of the revenue collected from trade taxes was from import VAT, which contributed K2, 644.6 billion or 67.6 percent. Import duties contributed K1, 262.6 billion or 32.3 percent while export duties contributed K4.7 billion or 0.1percent.

The underperformance of customs duty was mainly on account of the implementation of SADC tariff reductions.

The performance of import VAT was largely driven by an increase in the value of taxable imports.

The poor performance of export duty on copper concentrate was attributed to the reduced exports of copper ores and concentrates following the availability of additional local smelting facilities in Zambia. Similarly, the poor performance of export duties on scrap metal and cotton seed was attributed to increased local consumption and a switch to local processing respectively.

Performance of Mining Sector Taxes

Tax revenue from the mining sector has risen dramatically since 2005, principally as a result of a fall in losses from previous years being carried forward by mining companies. These revenues represent a growing share of total tax revenues from 0.06 percent in 2005 to 12.6 percent in 2010. Of the tax types, Company Tax contributes the majority in most years (59 percent on average), followed by Mineral Royalty (37 percent on average).

Contribution of Tax Types to Total Revenue and GDP

The ratio of tax revenue to GDP increased from 15.0 percent in 2009 to 16.9 percent in 2010. In particular, this ratio for income taxes increased from 7.9 percent in 2009 to 9.7 percent in 2010, while taxes on domestic goods and services increased from 2.1 percent to 2.5 percent. Notably, the ratio for trade taxes increased marginally from 5.1 percent to 5.2 percent (see Table 4).

Table 4: Tax revenue contribution as share of GDP, 2010 and 2009

Tax Type	Percentage of GDP in 2010	Percentage of GDP in 2009
Income Tax	9.7	7.9
Company Tax	3.2	2.1
Pay As You Earn (PAYE)	5.9	4.5
Withholding Tax	0.8	0.8
Mineral Royalty	0.5	0.4
Domestic Goods & Services	2.5	2.1
Excise Duty	1.8	1.6
Domestic Value-Added Tax (VAT)	0.7	0.5
Trade Taxes	5.2	5.1
Import VAT	3.5	3.4
Import Duty	1.7	1.7
Export Duty	0.01	0.03
Medical Levy	0.03	0.02
Total GDP	**77,679**	**64,616**
Revenue as % of GDP	**16.9**	**15.0**

Trade Facilitation

Trade Facilitation

Meeting its responsibility of facilitating international trade, during the year, the Authority continued to adopt more efficient customs registration and clearing procedures leading to a reduction in customs clearance time. For instance, the customs declaration process was, on average, concluded within one day. The Authority has made further improvements in the streamlining of procedures such as the introduction of One-Stop Border Post at Chirundu. In addition, the Authority continued to implement the Customs Accredited Clients Programme that uses risk profiling to identify and reward tax compliant importers and exporters through speedy clearance of their consignments.

Customs Declarations

As part of its trade facilitation function, in 2010, the Authority processed a total of 452,021 customs declarations of which 448,143 were assessed while 3,878 were not assessed. This was higher than the outturn in 2009 when a total of 374,534 declarations were processed of which 370, 936 were assessed while 3, 598 were un-assessed.

Registration to Assessment Conversion Ratio

The registration to assessment conversion ratio provides the number of declared registrations that complete the registration process to assessments in a given period. With improved efficiency, for any given period the number of assessed entries is expected to equal the declared registrations. In the year under review 99.1 percent of the total transactions were assessed compared to 99.0 percent that were assessed in 2009 (see Table 5 below). The Authority aims to improve processing efficiency by ensuring that all registrations are assessed within twenty four hours.

Processing Efficiency

In terms of processing efficiency, the potential revenue in the year under review, amounted to K5, 283.0 billion of which K5, 003.6 billion or 94.7 percent was collected and receipted while K261.4 billion or 4.9 percent was assessed but not paid. In 2009, the potential revenue amounted to K4,517.8 billion out of which K4,202.8 billion or 93.0 percent was collected and receipted while K268.0 billion or 5.9 percent was assessed but not paid. Table 7 shows the processing efficiency in tax yield for taxable transactions in 2010 and 2009. The ratios in the last three columns of Table 7 indicate that the Authority recorded an improvement in processing efficiency during the year under review.

Table 5: Registration to Assessment Conversion Ratio 2010-2009

Year	Assessed	Reg. Un-assessed	Total	% Assessed	% Reg. Un-assessed
2010	448,143	3,878	452,021	99.1%	0.9%
2009	370,936	3,598	374,534	99.0%	1.0%

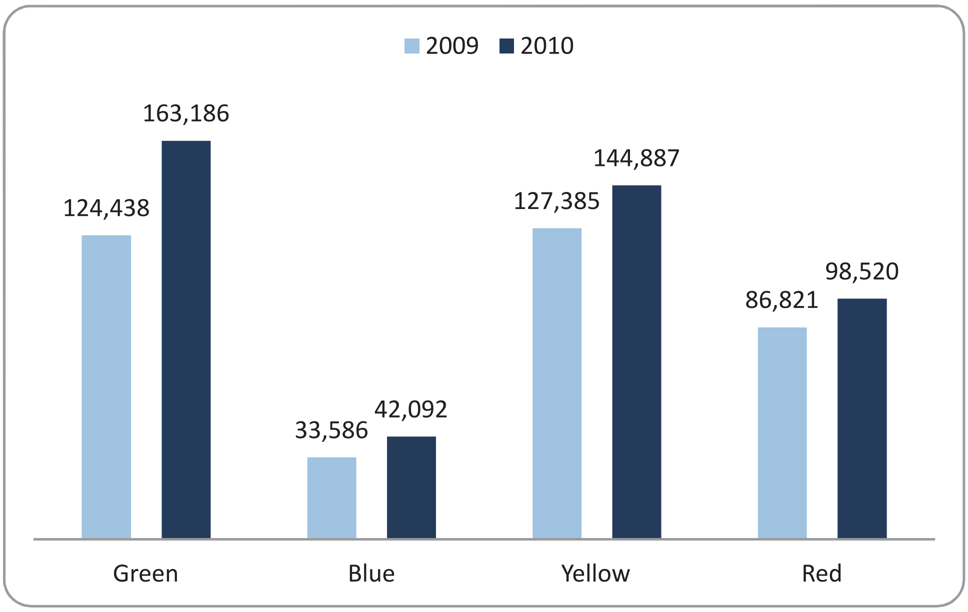
Table 6: Processing efficiency in tax yield from taxable transactions in 2009 and 2010 (K billions)

Year	Un-assessed taxes	Registered, assessed but not paid	Registered, assessed paid	Total collectable amount	Percentage un-assessed	Percentage unpaid	Percentage receipted
2010	18	261	5,004	5,283	0.3%	4.9%	94.7%
2009	47	268	4,203	4,518	1.0%	5.9%	93.0%

Risk Profiling Analysis

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 an average of 36.4 percent of the customs transactions were not subjected to any scrutiny at the borders (green lane), while 9.4 percent were not subjected to scrutiny at borders but set aside for post clearance audit (blue lane) see Figure 10. On the other hand, about 32.3 percent of the customs transactions were subjected to documentary checks at the ports of entry (yellow lane) and another 22.0 percent were subjected to physical inspections at the Ports of entry (red lane).

Figure 10: Lane analysis in 2009 and 2010



Strengthening our Tax Administration System

Strengthening our Tax Administration System

Modernisation

The modernisation programme, which started in 2006, made substantial progress in 2010. The purpose of the programme was to ensure the Authority continued to implement change initiatives that would enable it to effectively and efficiently achieve its mandate of maximising revenue collection and improving all aspects of service delivery. There are five major components under this programme: Design and Monitoring, Large Taxpayer Office, Small and Medium Taxpayer Office, Tax Administration, and the Information and Communication Technology components. By 2010, the Design and Monitoring Office, Large Taxpayer Office and Small and Medium Taxpayer Office had been implemented.

The major component of the modernisation programme still outstanding is the acquisition and implementation of a new Tax Administration System. The Authority has partnered with the ICF to undertake this task. The Ijoint CF-ZRA project is split into two phases. Phase one, which commenced in 2010 and is scheduled to run up to June 2011, includes the installation of a call centre, training in customer service, development of specification parameters for the new tax administration system, and the launch of a nation-wide communication campaign. Phase two, which will commence after the successful implementation of phase one, will involve the procurement of an Integrated Tax Administration System with e-filing and e-payment facilities.

The Tax Administration and Refunds Processing System (TARPS)

The remaining TARPS modules, namely, the PAYE refunds processing and account maintenance modules for PAYE, and Income Tax were rolled out in July 2010 in Lusaka, Ndola, Kitwe and Chingola on a pilot basis.

The successful rollout of the PAYE refund module improved the efficiency in the PAYE refunds processing function, which resulted in clearing of the backlogs that characterised refund processes at these stations. This led to the release of some staff from this function to other needy areas such as audit.

The PAYE and income tax account maintenance module enabled the commencement of the PAYE and income tax data cleaning activities on a centralised platform. This will ensure achievement of the data cleaning strategy objectives which aim to achieve clean data for migration to the new integrated tax administration system.

Other benefits that have been realised as a result of the implementation of TARPS during the year 2010 include a drastic fall in the occurrence of new suspense transactions. This is attributable to the automatic update of new tax account registrations on the National Cashiering System (NCS) through a TARPS-NCS interface that was created. It is expected that occurrence of new suspense accounts will be eliminated by end of 2011.

Enhancing the Quality of Customer Service Delivery

Enhancing the Quality of Customer Service Delivery

Taxpayer Education and Advisory Services

Taxpayer education and advisory services are now an important component of our overall tax compliance strategy. In an effort to interact with our customers, the Authority has employed important innovations to improve taxpayer services. In 2010, several consultative meetings with taxpayers were organised at the provincial and district levels. On average, the Authority interacted with taxpayers at least once in each quarter. The Authority participated fully in the Trade Fair at Ndola and at all the provincial Agriculture Shows where taxpayer education and registration was undertaken.

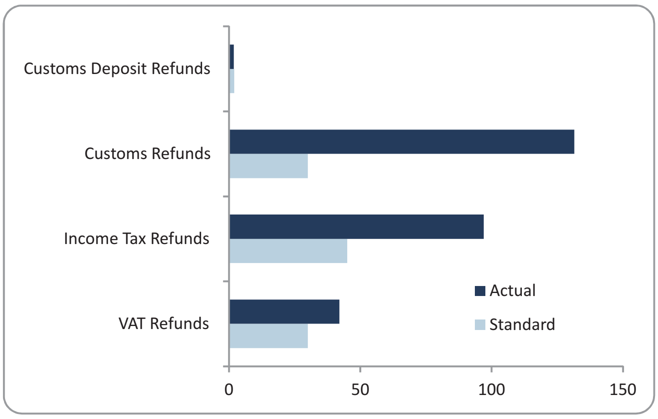
Key taxpayer awareness activities in 2010 included the Taxpayer Appreciation Week and Taxpayer Appreciation Day that involved media presentations, publications and other events and activities aimed at promoting taxpayer education and increasing voluntary compliance among the taxpayers. In addition, the Authority used both the print and electronic media in providing useful tax information to taxpayers. The Authority ran educational programmes on both national and community radio stations. The weekly print media article called "Tax Chat" proved useful as the Authority received feedback from taxpayers. Another facility that was highly utilised during the year was the e-mail based advisory service where taxpayers seek clarification and guidance on tax matters and are given feedback using an open e-mail feedback that benefits even those not directly affected. The Authority's website was enhanced during the year and was useful to visitors who were able to download essential documents on tax information. Through the Customer Service Centres, the Authority has established customer service help lines which were and continue to be effective in increasing the efficiency of communication with taxpayers.

Taxpayer Charter Performance

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 our stakeholders. The Charter guarantees our best standards of service and relies on the use of client feedback to provide better services in the future.

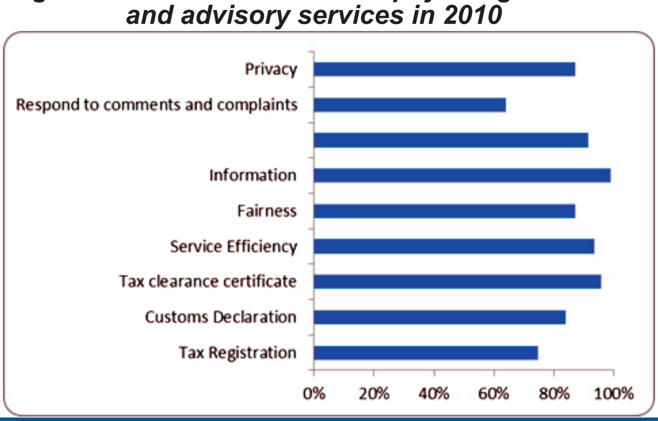
The service standards in the Charter can be divided into two broad categories: standards related to the processing of customers' refunds and those related to other customer services. There are four types of refunds for VAT, income tax, customs and customs deposit. On average, only customs deposit refunds were paid within the standard time provided for in the Charter while VAT, income tax and customs refund processes failed to meet the set standards. (see Figure 11). Despite notable gains in some refund processes there are still many areas to improve upon. Some of the reasons for delayed refunds include submission of incomplete refund claims and the centralised payment system of amounts above K1 million. With the continued implementation of the Integrated Refund Processing System, it is hoped that refund processes will become more efficient.

Figure 11: Efficiency of tax refunds processing system (days) in 2010



Processes related to other customer services in the Charter include: fairness, courtesy, clarity of information, confidentiality, registration, clearance services and customs declaration. During the year, there was significant improvement in these customer service standards. The service levels to clients ranged between 64 percent and 99 percent (See Figure 12). For instance, under tax registration, 87 percent of our clients were registered within the set standard of three days. Based on these results, it is evident that our commitment to the Charter is improving service delivery.

Figure 12: Effectiveness of taxpayer registration and advisory services in 2010



Stakeholder Engagement

Stakeholder Engagement

Cooperating Partners

In 2010, the Authority enjoyed amicable relationships with several Cooperating Partners, which resulted in the Authority receiving significant assistance in the form of direct funding and technical assistance. During the year, the Authority worked with the ICF to support the future call centre and customer training programme. The Authority continued to be supported by the Royal Norwegian Government to build capacity in the taxation of multinational companies, application of computer supported auditing and sectoral audits in the mining, finance, and tourism industries. A technical support programme was also started with the International Growth Centre to which we look forward to further technical assistance in the future. Other partnerships were with bilateral and multilateral organisations such as the IMF, GIZ (the german economic development agency), OECD, World Customs Organisation, World Trade Organisation, COMESA, SADC, European Union, and the Overseas Development Institute. The Authority also enjoyed good working relations with other revenue authorities in the region and engaged in information sharing and exchange visits.

Internal Partners

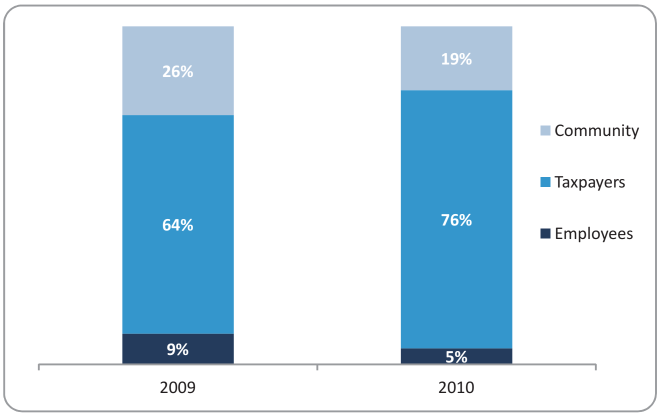
In order to provide support to Government in all its programmes on tax policy matters, the Authority continued to partner with institutions like the National Assembly, commercial banks, Zambia Development Agency, Anti-Corruption Commission, Drug Enforcement Commission, Zambia Police, the Judiciary and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

Corporate Social Responsibility

Several milestones were reached in the area of Corporate Social Responsibility (CSR) in 2010. The CSR activities were targeted at local communities, employees of the Authority, taxpayers and the environment in which the Authority operates.
(see Figure 13)

During the year under review, expenditures on local community initiatives amounted to 19 percent compared to 26 percent in 2009. Expenditures on the local community involved: donations to hospitals and underprivileged communities, support to major traditional ceremonies and maintenance of the environment in the proximity of our offices.

Figure 13: Expenditure on Corporate Social Responsibilities in 2009 and 2010



Administrative and Legal Arrangements

Tax Policy Support to the Government

In 2010, the Authority continued to provide support to the Government in all its programmes on tax policy issues. The Authority provided tax policy advice to the Government and responded to all Parliamentary and Ministerial queries on tax matters. As a stakeholder in tax policy formulation, the Authority submitted tax policy proposals to the Ministry of Finance and National Planning aimed at addressing tax administration challenges in areas of Income Tax, Value Added Tax and Customs. In this regard, the Authority submitted a number of administration measures (housekeeping measures) across all tax types that were adopted. Overall, the tax reform process in 2010 resulted in three Bills containing tax measures being introduced and passed by Parliament.

Investigations

The reorganisation of the prosecution and investigation functions within operating divisions is proving to be valuable to the Authority. This has helped to reduce the time between investigation and the time a case is reported. It is now automatic that whenever a new case is reported then investigation immediately commences. The Authority continued to develop the capacity of its investigation and prosecutions staff through training in collaboration with Zambia Police, the Anti-Corruption Commission and the Drug Enforcement Commission. It is expected that, through these partnerships, the Authority will improve the quality of investigations on tax related offences and increase the number of convictions which will subsequently improve voluntary compliance.

A total of 78 cases were investigated in the year under review compared to 86 cases in 2009. This represents a reduction of nine percent over the past year. The total revenue recovered on completed investigations was K86, 370 million compared to K58, 012 million in 2009 (See Table 7). A total of 38 cases were investigated under the Customs Services Division resulting in revenue recovery of K2, 150 million compared to K2, 073 million in 2009. Further, Domestic Taxes Division investigated a total of 40 cases and recovered K84.2 million compared to K55.9 million in 2009.

Prosecutions

Prosecuted cases during the year under review increased by over 100 percent from 31 in 2009 to 94 in the year 2010 (see Table 8).

Table 7: Number and Value of cases investigated and completed in 2009 and 2010

Year	Cases	Value of cases (K million)			
		VAT	Customs and Excise	Income Tax	Total
2010	78	27,684	2150	56,536	86,370
2009	86	4,460	2,073	51,479	58,012

Table 8: Type of sentences by tax type and values in 2010

Type of Sentence	Customs and Excise		Domestic Taxes		Total
	No.	Value (K billion)	No.	Value (K billion)	
Tax only – Administrative Settlement	1	118	36	52	37
Convictions	2	98	04	0.6	6
Fines/Penalty	6	57	33	31	39
Acquittal	1	48	00		1
Total new cases	***10***	***321***	***73***	***84***	***405***
Cases in Court	9		2		11
Grand Total	**19**		**75**		**94**

Customs related prosecutions were 19 during the year, representing about 26 percent of all the cases prosecuted. A total of 10 cases were completed with varying sentences including one conviction, six fines and one tax settlement. The total revenue realised from customs prosecutions was K321 million in 2010 compared to K491 million in 2009. On the other hand, domestic taxes related prosecutions during the year were 75, out of which 73 were finalised. The value of the cases completed was K84 million compared to K234 million in 2009.

Table 9 summarises prosecution activities during the year by selected market segments. Within the stated sectors, the number of prosecutions in 2010 increased from 16 to 59. General traders led the list of tax offenders prosecuted in 2010, representing 67.8 percent of the stated prosecutions.

Table 9: Prosecution activity by selected market segments in 2009 and 2010

Market Segment	2010	2009
Cross-border Traders	7	3
General Trading	40	10
Clearing Agents	7	3
Manufacturing	5	0
Total	**59**	**16**

Litigation

In the year 2010, taxpayers continued to show their increased awareness of their right to appeal and seek judicial interpretation on tax matters. Thus most taxpayers are now able to contest the decisions of the Authority on tax assessment, customs valuation, liability of VAT and other tax related matters. As a result, the number of cases in which the Authority's clients have sought judicial interpretation has continued to increase. The number of cases before courts of law rose significantly from 26 in 2009 to 50 in 2010. This is almost a 100 percent increase in the number of tax related cases before the courts (See Table 10).

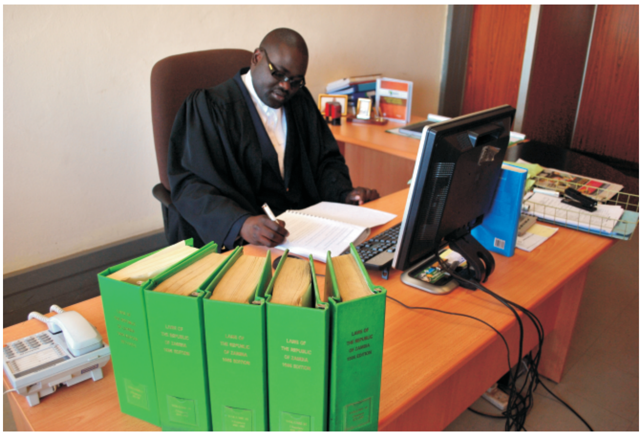
The High Court for Zambia and the Revenue Appeals Tribunal continued to handle the highest number of cases. In 2010, the High Court handled 28 cases representing 56 percent followed by the Revenue Appeals Tribunal which handled 13 cases or 26 percent. The Supreme Court handled five cases while the Magistrates Court handled one case.

Table 10: Tax related litigation in 2009 and 2010

Type of Court	2010	2009
Cases in Magistrates Court	1	1
Cases in High Court	28	17
Cases in Supreme Court	5	2
Revenue Appeals Tribunal	13	6
Total cases	**50**	**26**

The number of cases handled by Revenue Appeals Tribunal also increased from 6 in 2009 to 13 in 2010.

The year 2010 saw the addition of three cases which were handled by the Industrial Relations Court.



Compliance and Enforcement Initiatives

Compliance and Enforcement Initiatives

During the year under review, the Authority employed several compliance strategies in order to achieve its revenue collection mandate and service delivery goals. These compliance strategies included provision of taxpayer education and advisory services, tax audits, debt management, litigation, investigation and prosecutorial activities. This section reviews the main compliance strategies which were aimed at achieving the following: increased taxpayer registration, improved debt management and reduction of tax evasion and tax avoidance.

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 22,908 new taxpayers were registered and issued with Taxpayer Identification Numbers (TPINs). This represented an increase of 26 percent compared with 2009. This is depicted in Figure 14, which also shows the trend in taxpayer registration since 2004. This rise represents a response to the Authority's taxpayer education campaign. Enhanced taxpayer education is expected to improve voluntary compliance in the future.

Figure 14: TPIN registrations from 2004 to 2010

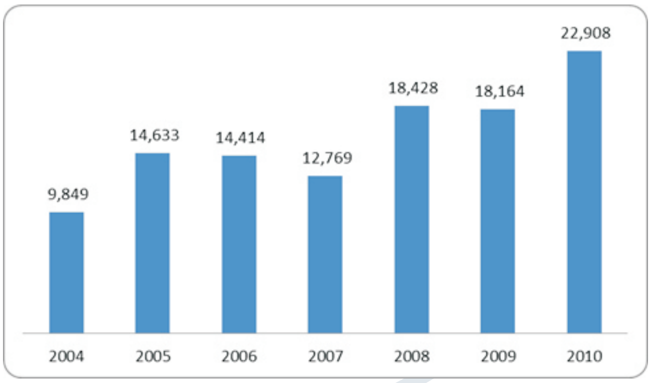
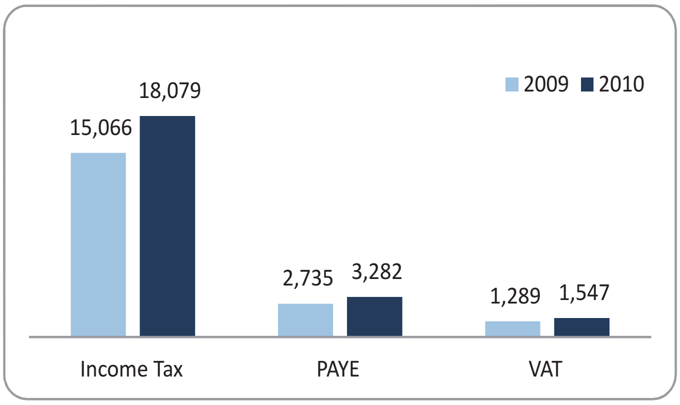


Figure 15 shows the registration by tax type in 2010 and 2009. Registration for income tax purposes was the highest followed by PAYE and VAT. During 2010, registration for all the three tax types increased by 20 percent from the previous year.

The general upward trend in tax registration can be attributed to the following:

- taxpayer education campaigns at all major trade shows, such as the Zambia International Trade Fair, the Zambia Agricultural and Commercial Show and the Provincial Shows;
- the increase in the number of local tax offices that are able to issue Taxpayer Identification Numbers; and
- the increase in the demand for taxpayer registration and tax clearance certificates as requirements in formal business transactions in the economy.

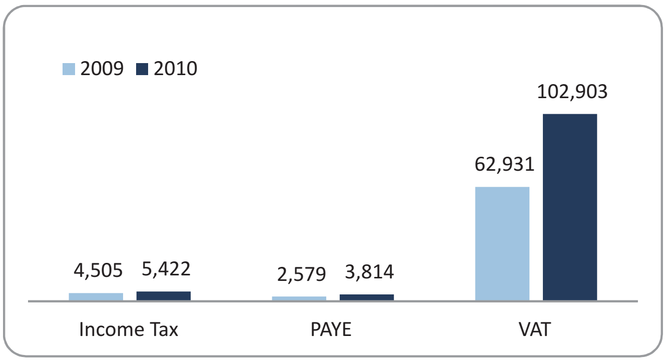
Figure 15: Registrations by Tax Type, 2009 and 2010



Tax Return Filing

During the year under review, the Authority received a total of 112,139 tax returns compared to 70,015 returns received in 2009; this represents an increase of over 60 percent. As depicted in Figure 18, across the three major tax types, the majority of returns came from VAT followed by company income tax. In 2010, all the taxes recorded a significant increase in return filing which can be attributed to the on-going taxpayer education and awareness campaigns. Specifically, VAT returns received increased from 62, 931 in 2009 to 102,903 in 2010 representing a growth of 64 percent. On the other hand PAYE return filing increased by 48 percent and that of company income tax grew by 20 percent.

Figure 16: Number of tax returns filed in 2009 and 2010



Tax Audit performance in 2010

During the year under review, a total of 6, 239 audits were undertaken in the Domestic Taxes Division compared to 2,145 in 2009. From these audits, a total of K743 billion was assessed compared to K1,084 billion in 2009, a decline of approximately 30 percent (see Table 14). The decline in the amount assessed over the period can be attributed to the increase in the compliance levels among taxpayers; hence audits resulted in fewer adjustments. Of the total number of audits, 12 percent came from the Large Taxpayer Office and accounted for 88 percent of the total value of tax assessed. The Medium Taxpayer Office and the Small Taxpayer Office undertook 57.9 percent and 30.1 percent of audits respectively. Notably, the audits under Medium Taxpayer Office and the Small Taxpayer Office contributed 11.3 percent and 0.3 percent to the total value of tax assessed respectively.

Table 11 Number of audits and tax collected in 2009 and 2010

Tax type	Number of Audits		Tax collected (K bn)	
	2010	*2009*	*2010*	*2009*
	LARGE TAXPAYER OFFICE			
VAT	420	32	29.9	49.1
PAYE	81	25	549.5	315.3
CIT	247	385	77.4	634.8
Sub Total	748	442	656.9	999.2
	MEDIUM TAXPAYER OFFICE			
VAT	2,175	335	33.9	14.5
PAYE	169	102	10.8	30.1
CIT	1,268	136	38.9	11.4
Sub Total	3,612	573	83.	56.0
	SMALL TAXPAYER OFFICE			
VAT	0	870	0	7.7
PAYE	47	112	0.2	20.7
TOT	1,832	148	2.4	1.4
Sub Total	1,879	1,130	2.6	29.7
Grand Total	**6,239**	**2,145**	**743.0**	**1,084.8**

Debt Management

Domestic Taxes

During the period 2006 to 2010, the average debt stock for the Domestic Taxes Division stood at K3, 598 billion. There was a steady rise in debt stock from 2006, reaching a peak of K5, 471 billion in 2008. Between 2009 and 2010, the domestic taxes debt stock increased by 8.2 percent from K3, 192 billion as at December 2009 to K3, 456 billion at the end of 2010.

Table 12: Domestic debt accumulation, 2006 to 2010 (K billions)

Tax Type	2006	2007	2008	2009	2010
Company Tax	1,265	1,271	2,366	1,182	717
Back Duty	214	9	8	8	17
Self Employed	83	82	86	16	123
PAYE	318	815	1,712	819	490.7
Domestic VAT	807	1,009	1,299	1,167	2107
Mineral Royalty	-	-	-	-	0.7
Total	**2,687**	**3,186**	**5,471**	**3,192**	**3,456**

Customs Services

Of the total revenue collected by the Customs Services Division in 2010, K191.8 billion, or 3.6 percent, was due to the payment of back taxes or assessments made prior to 2010.

Furthermore, the credit account provisions were tightened in an effort to reduce the debt within the allowable credit periods. This was through the automated locking of Taxpayer Identification Numbers (TPINs) and declarant accounts where assessments remain unpaid beyond five days from the date of the assessment, which improved compliance. As at the end of 2010, the total debt stood at K329.5 billion (see Table 13).

Figure 17: Tax arrears in 2009 and 2010 (K billions)

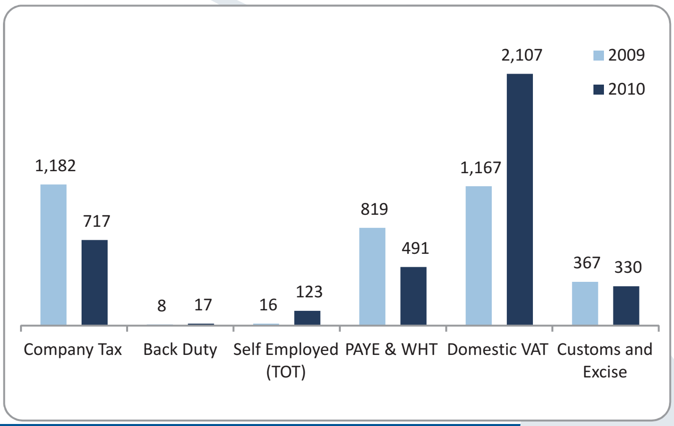


Table 13: Customs Services Debt Stock by Age of Debt (K billions)

Age (Days)	Customs Duty	Advance Income Tax	Carbon Emission Surtax	Excise Duty	Export Duty	Motor Vehicle Fees	Import VAT	Total
0 - 30	13.48	0.79	0.12	7.02	0.00	0.08	33.18	54.58
31- 90	1.82	0.14	0.00	0.59	0.25	0.01	2.92	5.75
90 - 180	44.60	0.06	0.00	0.38	0.00	0.01	147.35	192.41
Above 180	10.09	1.34	0.00	11.29	0.02	0.10	53.83	76.75
Total	**69.99**	**2.32**	**0.12**	**19.29**	**0.27**	**0.21**	**237.29**	**329.49**

Table 13 shows that K54.1 billion or 16.6 percent of the total debt was less than 30 days old while 23.3 percent of the debt was older than 180 days. The debt exposure at the end of 2010 decreased by K 37.5 billion or 10.2 percent.

Table 14: Debt movement in 2009 and 2010 (K billions)

	2009	2010
Customs Duty	69.5	70
Advance Income Tax		2.3
Carbon Emission Surtax	0.1	0.1
Excise Duty	69.5	19.3
Export Duty		0.3
Motor Vehicle Fee	0.1	0.2
Import VAT	227.8	237.3
Total	**367**	**329.5**

Border Enforcement

Enforcement and compliance activities were undertaken at various ports following risk assessments through inspections, road blocks and follow ups on intelligence tips from the public. A comparison in the detentions and seizures undertaken in 2010 and 2009 reveals a decline of 62.4 per cent (See Table 15). The major cases included smuggling of electrical appliances, motor vehicle spares, assorted liquor, building material and articles of worn clothing.

Non-Intrusive Inspection System

The launch of the mobile container scanners at Chirundu and Livingstone Border Posts has prompted improvements in the clearance times of commercial imports. It has also culminated in seizures of illegal imports. With the increased probability of detecting illegal concealments, scanners complemented the compliance and enforcement activities at Chirundu and Livingstone Border Posts. The scanners are encouraging greater compliance efforts amongst taxpayers.

Table 15: Border Enforcement Activities in 2009 and 2010

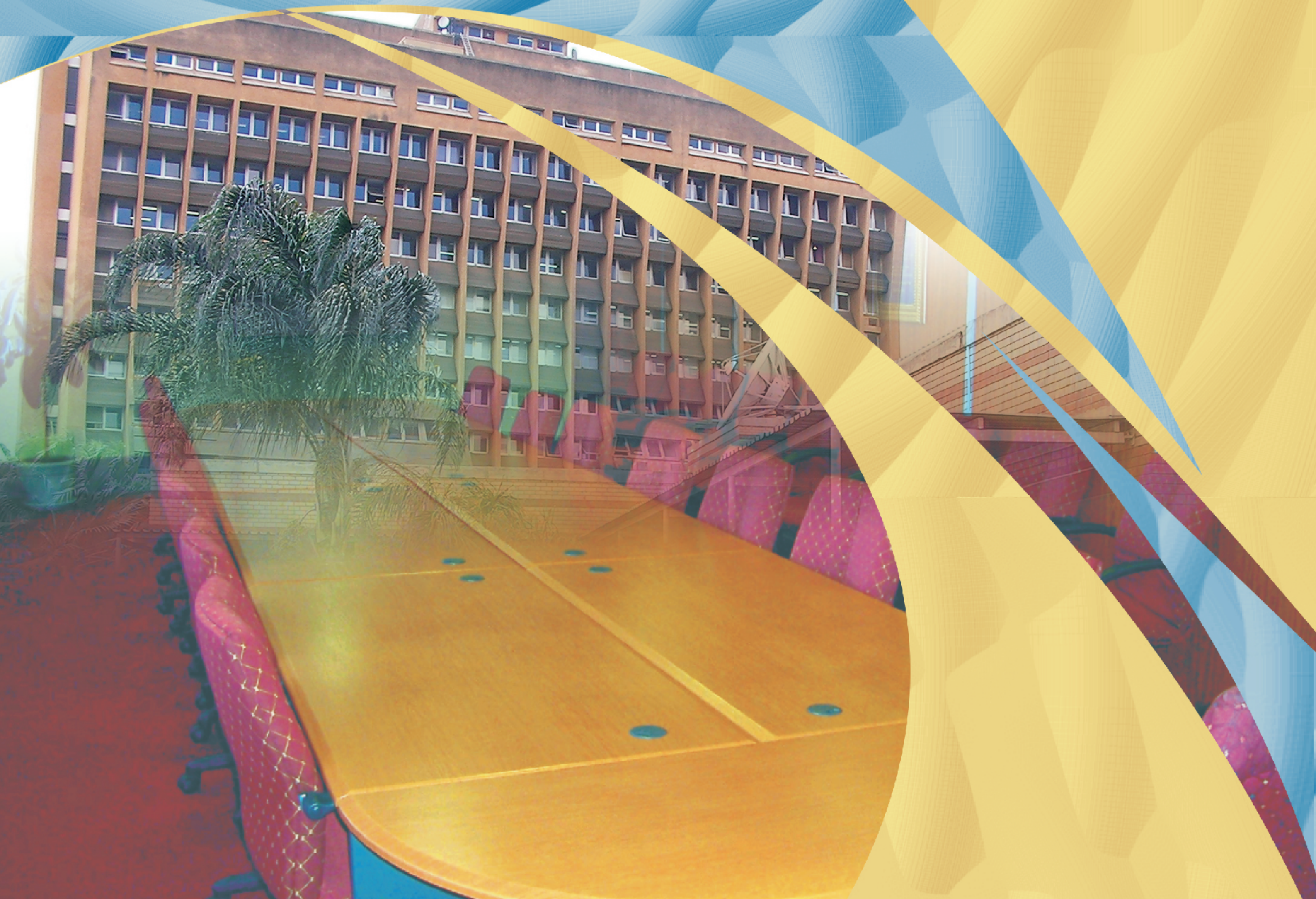
Type	2010 (K'bn)	VDP	2009 (K'bn)	VDP	Variance 2010 / 2009	Ratio 2010 / 2009
Value of Detained Goods	64.1		76.5		(12.4)	(16.2)
Value of Seized Goods	22.0		152.4		(130.5)	(85.6)
Total	**86.1**		**229.0**		**(142.9)**	**(62.4)**

In 2010, scanners were procured for: Katima Mulilo, Kapiri Mposhi, Chanida, Chirundu, Nakonde, Mwami, Kazungula and Kasumbalesa. Construction works for the installation of scanners at Katima Mulilo, Kapiri Mposhi, Chanida and Chirundu progressed well while preparations for works at the other border posts and had reached advanced stages. In addition, construction of the Scanner Simulation Centre located at the ZRA Training Centre also commenced during the year under review.

Mobile Compliance Unit

The Authority's border enforcement activities were complemented by the enforcement activities undertaken by the Mobile Compliance Unit. The major cases for the year involved suspected smuggling, fraudulent and false representation, under valuation, under declaration and interceptions of assorted goods.

Corporate Governance



Corporate Governance

Corporate Governance Structure

The Authority has maintained a stable organisational structure with the Governing Board in place to get assurances through progress reports from the Commissioner General on the day to day running of the Authority. The Board approves all the Authority's policies and endorses strategies.

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.

The Committee performed its function of overseeing the Authority's auditing, accounting and financial reporting processes to ensure that they were consistent with the Authority's policies, procedures and practices at all levels.

The Finance Committee

The Finance Committee performed its function of considering Financial Statements of the Authority and Revenue Collection Reports of the Authority. This includes consideration of reports in respect of procurements made by the Authority and assessed compliance with budgeted expenditure, as required.

The Legal, Staff and Disciplinary Committee

The Legal, Staff and Disciplinary Committee considers, among other things: legal matters, the recruitment of staff, the Authority's disciplinary cases pertaining to staff and appeals for staff graded; the establishment; the review of policies; management appraisal systems and the revision of conditions of service of the staff of the Authority.

Management Structure

The Authority is headed by the Commissioner General who has 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 18). Under the Commissioner Customs Services are the Deputy Commissioner-Headquarters and Deputy Commissioner-Operations. The Commissioner Domestic Taxes is supported by three Directors: Design and Monitoring, Large Taxpayer Office, and Small and Medium Taxpayer Office. The Commissioner Corporate Services is supported by three Directors: Administration, Information Technology, and Legal Counsel. The other Directors who report directly to the Commissioner General include Director Finance, Director Human Resource, Director Internal Audit, Director Research and Planning, and Director Special Duties. The Chief Internal Affairs Officer also reports directly to the Commissioner General.

All these officers constitute the Authority's 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 and resources to line managers.

The Authority has in place a Corporate Plan whose objective is to provide strategic guidance and provide a basis for upholding the tenets of good corporate governance. SMM routinely reviews the implementation of activities in the Authority to ascertain the extent to which there is conformity with the Corporate Plan.

Internal Governance Structures

Internal Audit

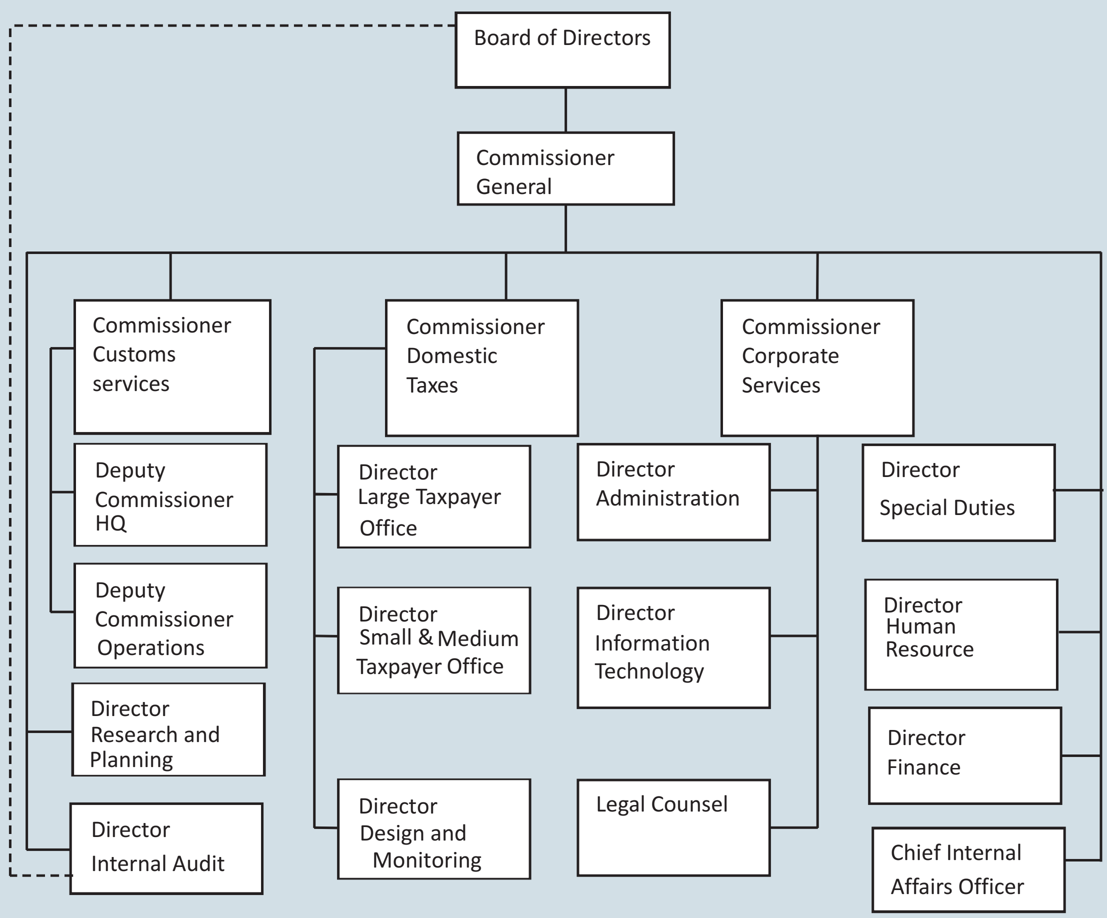
The Internal Audit Division plays the role of reviewing and confirming the reliability of internal controls, risk management and governance processes within the Authority. The Division also assesses, on a regular basis, the level of implementation of various recommendations agreed in prior audit reports.

Internal Affairs

The Internal Affairs Unit is used is a management tool under the office of the Commissioner General mandated to investigate all matters pertaining to corruption, fraud and other malpractices involving employees of the Zambia Revenue Authority.

Since corruption is a criminal offence the unit works closely with the Anti Corruption Commission to an extent that for a number of years since the inception of the Unit, some officers from the Anti corruption Commission were attached to the unit and investigations were done jointly. Where sufficient evidence of corruption was found, the affected officers were prosecuted. Other cases resulted in disciplinary action being taken against the erring officers.

Figure 18: Organisational chart



Zambia Revenue Authority Integrity Committee

During the period under review, the ZRA Integrity Committee (ZRAIC) continued with its effort of preventing corruption and maladministration within the Authority as well as addressing complaints of unethical conduct by staff. ZRAIC conducts integrity awareness campaigns on the Authority's policies regarding corruption and unethical behaviour of its staff. On a quarterly basis, the ZRAIC performance reports are submitted to the Secretary to the Cabinet through the Anti-Corruption Commission. The ZRAIC Secretariat is fully integrated with other structures of the Authority.

External Governance Structures

Parliamentary Committees

During the year under review, the Authority presented the 2009 Annual Report to Parliament through the Ministry of Finance and National Planning (MoFNP). 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.

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

Overview of the financial performance

Operational and Capital Funding

Government has remained the major source of both operational and capital funding to the Authority. In the period under review, a total of K273.7 billion was budgeted and received as funding. This was 17 percent above the funding for the previous year and was 2.1 percent of total revenues collected compared to 2.4 percent last year. ASYCUDA processing fees amounted to K22.0 billion compared K18.0 billion collected the previous year. Other income was K5.0 billion mainly from sale of cigarette stamps and disposals of assets.

Government funding as a ratio of revenue collection

Government funding as a ratio of revenue collection indicates an overall declining trend between 2005 and 2010. The highest funding was recorded in 2007 with a ratio of 2.4 percent of total tax collections compared to 1.8 percent in 2010.

Expenditure

Total expenditure (including depreciation) during the period under review amounted to K283.0 billion representing an increase of 18.0 percent compared to same period last year. This increase reflects inflationary pressures and real price increases especially in energy, repairs and maintenance of motor vehicle fleet and legal costs.

During the review period staff costs which include emoluments, gratuity provisions, training and staff welfare accounted for 70 percent compared to 73 percent in 2009. The excess of expenditure over income increased from K4.6 billion in 2009 to K7.1 billion in 2010.This is mainly attributed to the enhanced provisions for terminal benefits and accrual of legal fees. Total additions to Fixed Assets amounted to K5.4 billion representing a 2.0 percent of total funding compared to 7.0 percent in 2009.

The detailed financial performance based on Accruals Basis of Accounting, is shown in the Financial Statements, which are attached and part of this Annual Report on pages 44 to 75.

Financial 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.

A total of K7.96 billion was committed for major projects in 2010. These projects were:

- installation of lifts in Revenue House;
- purchase of an institutional house;
- rehabilitation of 43 houses in Chirundu and six houses in Mongu;
- construction of security wall fence at the Training Centre;
- relocation of cash office and Advice Centre at Nchanga House in Kitwe;
- rehabilitation of Musonko House and Manager's flat in Chingola;
- installation of air conidtioners at Revenue House;
- refurbishment in kitchens at Revenue House;
- construction of concrete drainage and landscaping along Luanshya Road at Revenue House.

Human Resources

During the year under review, staff complement stood at 1,214 employees against the approved establishment of 1,380. (see Table 16)

Staff Development Activities

In the year under review, the Authority refurbished the Training Centre with the result that most training programmes and workshops are undertaken there. In addition, the Authority embarked upon the expansion of the Training Centre through the construction of a new Customs scanner simulation facility. The Authority sponsors various training programmes for its staff to improve their capacity to perform their roles diligently.

Table 16: ZRA staff complement by Division or Unit as at end of 2009 and 2010

	2009		*2010*	
Division / Unit	**Actual**	**Approved**	**Actual**	**Approved**
Commissioner General's Office	11	10	13	13
Research and Planning Division	12	19	13	19
Domestic Taxes Division	399	440	402	440
Customs Services Division	463	489	451	494
Corporate Services Division	238	310	244	311
Human Resource Division	19	19	20	23
Finance Division	54	63	56	63
Internal Audit Division	16	16	14	16
ZRAIC Secretariat	1	1	1	1
Total	**1,213**	**1,367**	**1,214**	**1,380**

Table 17 shows the staffing complement broken down by grade and gender in 2010 and 2009.

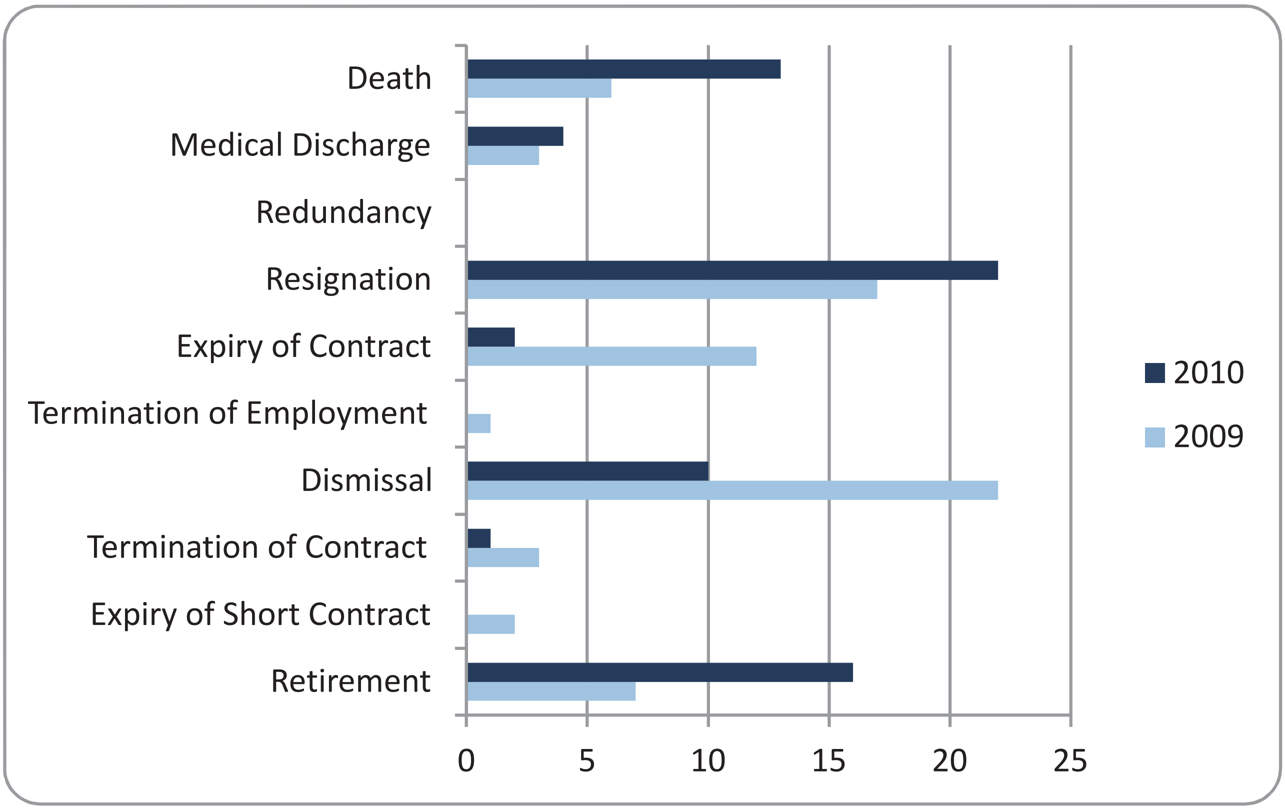
Staff Separations

Staff retention remains one of the most important objectives of the Authority. In this regard, the Authority implemented measures to reduce high staff turnover and these are now yielding encouraging results, as can be seen from a low stuff turnover of 5.7 percent in 2010.

Table 17: ZRA employees by grade and gender as at end of 2009 and 2010

	2009		*2010*	
Classification	**Male**	**Female**	**Male**	**Female**
Senior Management ZRA00	1	0	1	0
Senior Management ZRA01	2	1	1	1
Senior Management ZRA02	9	3	8	3
Middle Management ZRA03 –04	110	27	114	27
Technical Staff ZRA05 – 06	312	131	317	141
Support Staff ZRA07 –10	380	237	381	220
Total	**814**	**399**	**822**	**392**

Figure 19: General staff turnover by type of separation in 2009 and 2010



Source: Zambia Revenue Authority

Financial Statements
for the year ended 31 December 2010

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Statement of responsibilities of the Governing Board in respect of the preparation of financial statements

The Governing Board is responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of changes in capital fund and reserves, the statement of cash flows for the year then ended and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia.

The Governing Board is also responsible for such internal control as the Governing Board determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The Governing Board has made an assessment of the ability of the Authority to continue as a going concern and has no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements

The financial statements of the Authority as indicated above and set out on pages 44 to 75 were approved by the Governing Board on 30th June 2011 and are signed on its behalf by:

______________________)

MR. C. MUNDIA, S.C.) ***CHAIRMAN - GOVERNING BOARD***

)

)

______________________)

MRS M. CHIBESAKUNDA) ***DIRECTOR***

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Corner Nkwazi/Cha Cha Cha Roads
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Report of the independent auditors to the Governing Board of Zambia Revenue Authority

Report on the financial statements

We have audited the financial statements of Zambia Revenue Authority which comprise the statement of financial position at 31 December 2010, and the statement of comprehensive income, the statement of changes in capital fund and reserves, the statement of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes as set out on pages 50 to 75.

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, Chapter 321 of the Laws of Zambia, and for such internal controls as the Governing Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 relevant 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 our 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, we consider internal controls 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 Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the 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, in all material respects, the financial position of Zambia Revenue Authority at 31 December 2010 and of its financial performance and 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, Chapter 321 of the Laws of Zambia.

Report on other legal and regulatory requirements

In accordance with Section 24 (1) of the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia, we report that, in our opinion the required accounting records, other records and registers have been properly kept in accordance with the Act.

KPMG
Chartered Accountants of Zambia

Hampande Hachongo
Partner

30th June 2011
....
Lusaka, Zambia

Statement of financial position

as at 31 December 2010

	Note	2010 K'000	2009 K'000 Restated	2008 K'000 Restated
Assets				
Non-current assets				
Property, plant and equipment	13	**133,807,472**	138,517,951	133,365,565
Intangible assets	14	**1,171,825**	-	-
Employee loans and advances	17	**1,561,754**	1,626,627	4,218,014
		136,541,051	140,144,578	137,583,579
Current assets				
Inventories	16	**2,535,745**	1,527,658	1,965,614
Employee loans and advances	17	**3,349,811**	1,609,456	1,782,347
Other assets	18	**1,888,686**	4,800,492	2,522,895
Cash and cash equivalents	19	**16,588,990**	16,886,103	22,529,631
Amount receivable from Government	28	**10,479,371**	-	-
Customs deposit bank accounts	24	**1,973,087**	5,339,939	3,099,959
Tax refunds bank accounts	25	**61,542,156**	25,743,810	40,070,000
		98,357,846	55,907,458	71,970,446
Total assets		**234,898,897**	196,052,036	209,554,025
Capital fund, reserves and liabilities				
Capital fund		**5,534,612**	11,605,703	15,105,280
Revaluation reserve		**50,530,576**	51,583,296	52,636,016
Capital reserves		**650,491**	650,491	650,491
		56,715,679	63,839,490	68,391,787
Liabilities				
Non-current liabilities				
Employee related liabilities	20	**51,329,709**	36,893,092	32,059,950
Capital grant	10	**15,402,057**	17,181,906	18,961,755
		66,731,766	54,074,998	51,021,705
Current liabilities				
Employee related liabilities	20	**28,899,664**	25,298,751	19,592,645
Trade payables	21	**7,038,838**	12,092,870	8,959,183
Other payables	22	**11,997,707**	9,662,178	18,369,120
Bank overdraft - unsecured		**-**	-	49,626
Customs deposit accounts	24	**1,973,087**	5,339,939	3,099,959
Tax refunds accounts	25	**61,542,156**	25,743,810	40,070,000
		111,451,452	78,137,548	90,140,533
Total capital fund, reserves and liabilities		**234,898,897**	196,052,036	209,554,025

These financial statements were approved by the Governing Board on 30th June 2011 and were signed on its behalf by:

)
MR. C. MUNDIA, S.C.) ***CHAIRMAN - GOVERNING BOARD***

)
MRS M. CHIBESAKUNDA) ***DIRECTOR***

Statement of comprehensive income
for the year ended 31 December 2010

	Note	2010 K'000	2009 K'000 Restated
Revenue			
Government funding	*7*	**245,109,671**	210,914,000
Asycuda processing fees	*8*	**21,764,490**	17,828,304
Other income	*9*	**5,030,649**	3,765,678
Amortisation of capital grant	*10*	**1,779,849**	1,779,849
Total operating income		**273,684,659**	234,287,831
Expenditure			
Personnel expenses	*11a*	**193,977,140**	171,987,729
Administrative expenses	*11b*	**27,507,025**	27,463,945
Operating expenses	*11c*	**35,949,111**	25,961,589
Legal expenses		**13,509,827**	4,587,569
Depreciation and amortisation	*13/14*	**9,865,367**	8,839,296
Total expenses		**280,808,470**	238,840,128
Deficit for the year		**(7,123,811)**	(4,552,297)
Other comprehensive income			
Amortisation of revaluation reserve		**1,052,720**	1,052,720
Total comprehensive loss for the year		**(6,071,091)**	(3,499,577)

Statement of changes in capital fund and reserves
for the year ended 31 December 2010

	Capital fund K'000	Revaluation reserve K'000	Capital reserves K'000	Total K'000
Balance at 1 January 2007	14,189,987	-	650,491	14,840,478
Total comprehensive income for the year				
- Surplus for the year (refer to note 31)	915,293	-	-	915,293
- Revaluation surplus	-	52,636,016	-	52,636,016
Balance at 1 January 200 8 as restated (refer to note 31)	15,105,280	52,636,016	650,491	68,391,787
Total comprehensive income for the year				
- Deficit for the year (refer to note 31)	(4,552,297)	-	-	(4,552,297)
- Other comprehensive income	1,052,720	(1,052,720)	-	-
Balance at 31 December 2009 as restated (refer to note 31)	**11,605,703**	**51,583,296**	**650,491**	**63,839,490**
Total comprehensive income for the year				
- Deficit for the year	**(7,123,811)**	**-**	-	**(7,123,811)**
- Other comprehensive income	**1,052,720**	**(1,052,720)**	-	**-**
Balance at 31 December 2010	**5,534,612**	**50,530,576**	**650,491**	**56,715,679**

Capital fund

The capital fund is the carried forward recognised income net of expenses of the Authority, plus the current period deficit.

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.

Revaluation reserve

Revaluation reserve is a non -distributable reserve which represents the revaluation surplus on buildings. The revaluation reserves are amortised to capital fund as the related assets are depreciated or disposed of.

Statement of cash flows
for the year ended 31 December 2010

	Note	2010 K'000	2009 K'000 Restated
Cash flows from operating activities			
Deficit for the year		**(7,123,811)**	(4,552,297)
Adjustment for:			
- Amortisation of capital grant	*10*	**(1,779,849)**	(1,779,849)
- Depreciation and amortisation	*13/14*	**9,865,367**	8,839,296
- (Gain)/loss on sale of equipment		**168,094**	(248,553)
Operating cash flows before movement in working capital		**1,129,801**	2,258,597
Changes in inventories		**(1,008,087)**	437,956
Changes in employee loans and advances		**(1,675,482)**	2,764,278
Changes in amounts due from Government		**(10,479,371)**	-
Changes in other assets		**2,911,806**	(2,277,597)
Changes in trade payables		**(5,054,032)**	3,133,687
Changes in other payables		**2,335,529**	(8,706,942)
Changes in employee related liabilities		**18,037,530**	10,539,248
Net cash flows from operating activities		**6,197,694**	8,149,227
Cash flows from investing activities			
Acquisition of property, plant and equipment	*13*	**(5,425,023)**	(14,494,220)
Acquisition of intangible assets	*14*	**(1,255,527)**	-
Proceeds from sale of equipment		**185,743**	751,091
Net cash used in investing activities		**(6,494,807)**	(13,743,129)
Net increase/(decrease) in cash and cash equivalents		**(297,113)**	(5,593,902)
Cash and cash equivalents at beginning of year		**16,886,103**	22,480,005
Cash and cash equivalents at end of the year	*19*	**16,588,990**	16,886,103

1 Reporting entity

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

The principal activities of the Authority are to:

- 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 Basis of preparation

2.1 *Statement of compliance*

The Authority's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), and in the manner required by the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia.

2.2 *Basis of measurement*

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- buildings are measured at fair value;
- employee loans and advances are measured at fair value; and
- employee benefits.

2.3 Functional and presentation currency

These financial statements are presented in Zambian Kwacha (“Kwacha”), which is the Authority's functional currency. Except as otherwise indicated, the financial information presented in Kwacha has been rounded off to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 5.

3 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied by the Authority to all periods presented, unless otherwise stated.

3.1 Revenue recognition

(a) Government revenue grants

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

(b) Interest income

Interest income for all interest bearing instruments is recognised within 'other income' in profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or, where appropriate, a shorter period.

(c) Rental income

Rental income from surplus properties is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

(d) Asycuda processing fees

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

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

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

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

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

3.2 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.

Where the Authority is the lessee, the leased assets are not recognised in the Authority's statement of financial position. The total payments made under operating leases are charged to profit or loss on a straight-line basis over the lease period.

3 Significant accounting policies *(continued)*

3.3 Foreign currency transactions

Transactions in foreign currencies are translated to Kwacha at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

3.4 Employee benefits

i) Defined benefit plan

The Authority maintains a defined benefit scheme to provide retirement benefits to employees. The calculation of the obligation is performed by qualified actuaries. The method used in the last valuation was the attained age method. Funding shortfalls arising in the defined benefit scheme are met through lump sum payments or increased future contributions and other methods as may be deemed fit by the Governing Board.

ii) Defined contribution plan

The Authority also provides for retirement benefits for all permanent employees as provided for in Statutory Instrument No. 119. 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.

iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Authority has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iv) Termination benefits

Termination benefits are recognised as an expense when the Authority is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Authority has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

v) Gratuity benefit

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

3 Significant accounting policies *(continued)*

3.5 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, demand deposits and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in fair value, and are used by the Authority in the management of its short term commitments.

Cash equivalents are carried at amortised cost in the statement of financial position.

3.6 Financial assets and financial liabilities

Recognition

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

A financial asset or financial liability is initially measured at fair value including (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

De-recognition

The Authority derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Authority neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that is created or retained by the Authority is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Authority derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

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

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

3 Significant accounting policies *(continued)*

3.6 Financial assets and financial liabilities *(continued)*

Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment (for financial assets only).

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

Identification and measurement of impairment

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired if, and 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 has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Authority about the loss event.

3 Significant accounting policies *(continued)*

3.6 Financial assets and financial liabilities *(continued)*

Identification and measurement of impairment *(continued)*

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Authority on terms that the Authority would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or debt issuers in the Authority, or economic conditions that correlate with defaults in the Authority.

When a loan is uncollectible, it is impaired. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account.

Impairment of non financial assets

The carrying amount of the Authority's assets (other than financial assets) is reviewed at each reporting date to determine whether there is an indication of impairment. If any such exists, the asset's recoverable amount is estimated. This estimation requires the use of assumptions and significant judgement. An impairment loss is recognised in profit or loss whenever the carrying amount exceeds the recoverable amount.

Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that the debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit and loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through unwind of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

All financial assets are tested for impairment on an individual basis.

3.7 Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market and the Authority does not intend to sell immediately or in the near future. Loans and receivables include Mortgage, Term loans, Personal loans, overdrafts and cash and cash equivalents.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method less impairment losses.

Loans are recognised when cash is advanced to the borrowers.

3 Significant accounting policies *(continued)*

3.8 Borrowings

Borrowings are recognised initially at fair value, being the issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, any difference net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

3.9 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost or revaluation less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

The cost of replacing a part of an item of property, plant or equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Authority and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss using the straight-line method to allocate the cost of property, plant and equipment down to their residual values over their estimated useful lives, as follows:

Leasehold buildings	2%
Office equipment, furniture, fixture and fittings	20%
Motor vehicles	25%
Scanners	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposal of assets are determined by comparing proceeds with carrying amounts. These are recognised in profit or loss.

Expenditure on property, plant and equipment which is under construction is classified as Capital work-in-progress. Capital work in progress is not depreciated.

3.10 Leasehold land

Leases of land are classified as operating leases on the basis that although land has an indefinite economic life and the right to use the land passes on acquisition, ownership has a fixed lease term of 99 years, or the unexpired portion thereof. Upfront payments made to obtain the right to use the land are capitalised as a lease prepayment and recognised on a straight line basis over the unexpired portion of the lease term as an operating lease expense. As of the reporting date, no significant value could be placed on the land as it was obtained many years ago.

After the expiry of the fixed lease term, ownership of land ultimately vests in the Government of the Republic of Zambia and title does not transfer to the lessee.

3 Significant accounting policies *(continued)*

3.11 Revaluation of buildings

Leasehold buildings are measured at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The fair value of leasehold buildings is determined from market based evidence by appraisal that is undertaken by professional qualified valuers.

It is the Authority's policy to revalue leasehold buildings every five years.

3.12 Intangible assets – soft ware

Acquired computer software licences are capitalised at cost less accumulated amortisation and impairment on the basis of the costs incurred to acquire and directly attributable costs. Computer software costs are amortised through profit or loss on a straight line basis over the estimated useful lives of the software, from the date that it is available for use. The current estimated useful life of software is three years. Costs associated with maintaining software are recognised as an expense as incurred.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income under other operating income.

3.13 Provisions

A provision is recognised if, as a result of a past event, the Authority has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date taking into account the risk and uncertainties surrounding the obligation. When settlement of the obligation is expected in future, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When some or all of the economic benefits required to settle a provision are expected to be received from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivables can be measured reliably.

3.14 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 costs 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.

3.15 Capital grants

Capital grants represent the value of assets vested in the Authority by the Government without charge to the Authority. Capital grants are recognised initially as deferred income at fair value; and credited to profit or loss in equal annual instalments over the expected useful lives of the related assets.

4 New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Authority, except for the following:

Effective date	Standard, Amendment or Interpretation	Summary of Requirements
1 January 2011	*Improvements to IFRSs 2010* – IFRS 7 *Financial Instruments: Disclosures*	The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. The existing disclosure requirements of IFRS 7 are amended as follows: • IFRS 7 is amended to state that clarification that disclosure of the amount that best represents an entity's maximum exposure to credit risk is required only if the carrying amount of a financial asset does not reflect such exposure already. • Additional requirement to disclose the financial effect of collateral held as security and other credit enhancements in respect of a financial instrument. An example of such disclosure is quantification of the extent to which credit risk is mitigated by the collateral and other credit enhancement obtained. This disclosure is in addition to the existing requirement to describe the existence and nature of such collateral. • IFRS 7 is amended to state that clarification that disclosure in respect of collateral taken possession off by the entity is required only in respect of such collateral held at the end of the reporting period. The following requirements have been removed from IFRS 7: • Disclosure of the carrying amount of financial assets that would have been past due or impaired if their terms had not been renegotiated. • Disclosure of a the description and fair value of collateral held as security and other credit enhancements in respect of financial assets that are past due but not impaired and in respect of financial assets that are individually determined to be impaired.

4 New standards and interpretations not yet effective *(continued)*

Effective date	**Standard, Amendment or Interpretation**	**Summary of Requirements**
		Additionally, the clause stating that quantitative disclosures are not required when a risk is not material has been removed from IFRS 7. The general materiality considerations continue to apply to all disclosures required by IFRS 7 in the same way as they apply to other IFRSs. The Authority is currently in the process of evaluating the potential effect of this standard. Given the nature of the Authority's operations, this standard is not expected to have a pervasive impact on the 2011 financial statements.
	Improvements to IFRSs 2010 – IAS 1 *Presentation of Financial Statements*	The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes. This clarification is not expected to have a significant impact on the 2011 financial statements.
1 January 2013	IFRS 9 *Financial Instruments*	IFRS 9 (2009) is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 31 December 2010. The Authority is currently in the process of evaluating the potential effect of this standard. Given the nature of the Authority's operations, this standard is not expected to have a pervasive impact on the 2013 Authority's financial statements.

4 New standards and interpretations not yet effective *(continued)*

Effective date	Standard, Amendment or Interpretation	Summary of Requirements
		The additions to IFRS 9 will be adopted by the Authority for the first time for its financial reporting period ending 31 December 2013. The standard will be applied retrospectively, subject to transitional provisions. Under IFRS 9 (2010), the classification and measurement requirements of financial liabilities are the same as per IAS 39, barring the following two aspects: • fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss, attributable to the changes in the credit risk of the liability will be presented in other comprehensive income (OCI). The remaining change is recognised in profit or loss. However, if the requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. The determination as to whether such presentation would create or enlarge an accounting mismatch is made on initial recognition and is not subsequently reassessed. • Under IFRS 9 (2010) derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are measured at fair value. IFRS 9 (2010) incorporates, the guidance in IAS 39 dealing with fair value measurement, derivatives embedded in host contracts that are not financial assets, and the requirements of IFRIC 9 Reassessment of Embedded Derivatives.
1 January 2011	IAS 24 related party disclosures	• The revised IAS 24 is likely to affect the Authority's related party disclosures but will not have an impact on the measurement of transactions and balances with related parties. It is effective for annual periods beginning on or after 1 January 2011.

5 Use of estimates and judgements

The Authority makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Provisions for employee related liabilities

The Authority provides for gratuity and retirement benefits in the Authority's conditions of service. The estimate is based on the amount of possible outflow of economic benefits.

Estimate of assets 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 basis which may not represent the actual usage of the asset.

6 Financial risk management

The Authority has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk, and
- market risk.

This note presents information about the Authority's exposure to each of the above risks and the Authority's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Governing Board has overall responsibility for the establishment and oversight of the Authority's risk management framework. The Authority's risk management policies are established to identify and analyse the risks faced by the Authority, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Authority's activities. The Authority, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Governing Board oversees how management monitors compliance with the Authority's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Authority. The Governing Board undertakes both regular and ad hoc reviews of risk management controls and procedures.

6 Financial risk management *(continued)*

(a) Credit risk

Credit risk is the risk of financial loss to the Authority if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from cash and bank balances and loans and receivables (to employees that leave the Authority).

The credit risk on loans and receivables mainly arises from employees who have left the Authority. The Authority mitigates this risk by ensuring that before an employee leaves, all outstanding loans are deducted from the employee's benefits payable to the employee. An allowance of impairment is raised for amounts not recoverable.

(b) Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. The Authority's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Authority's reputation.

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.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates will affect the Authority's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) Currency risk

The Authority undertakes certain transactions denominated in foreign currencies. Hence, exposures are managed within approved policy parameters as approved by the Governing Board. Exposure to current risk is not significant.

(ii) Interest rate risk

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

Capital management

The Authority prepares an annual budget at the end of the year which is approved by the Governing Board. The Authority is then funded based on the approved budget.

Monthly management reports are prepared by management explaining any discrepancies between the budgeted cost and the actual cost which is closely monitored by the Governing Board on a quarterly basis.

7 Government funding

	2010 K'000	2009 K'000
Annual budgetary allocation	**236,622,408**	205,014,000
Supplementary funding	**8,487,263**	5,900,000
	245,109,671	210,914,000

The supplementary funding was in respect of litigation support.

8 Asycuda processing fees

	2010 K'000	2009 K'000
Administration costs	**2,394,094**	1,961,114
Asycuda Professing fees	**11,752,825**	9,627,284
Scanner maintenance fees	**7,617,571**	6,239,906
	21,764,490	17,828,304

9 Other income

	2010 K'000	2009 K'000
Cigarette stamps sales proceeds	**822,152**	1,815,352
Sundry income	**3,134,159**	820,353
Interest income	**864,727**	677,754
(Loss)/gain on disposal of property, plant and equipment	**(168,094)**	248,553
Rental income	**377,705**	203,666
	5,030,649	3,765,678

Sundry income includes a reversal of an accrual previously recognised relating to ZAMTEL of K1.5 billion, tender fee of K112 million and sale of certificates of K91 million.

10 Capital grants

	2010 K'000	2009 K'000
At beginning of year	**17,181,906**	18,961,755
Recognised in profit or loss	**(1,779,849)**	(1,779,849)
At year end	**15,402,057**	17,181,906

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

11 Expenditure analysis

		2010 K'000	2009 K'000
11a	**Personnel expenses**		
	Basic pay	**87,358,772**	79,806,221
	Housing allowance	**31,772,959**	29,920,042
	Other allowances	**62,082,393**	48,028,162
	NAPSA	**5,471,250**	4 ,998,694
	Staff welfare & Professional Sub.	**1,218,086**	1,327,599
	Medical expenses	**3,079,726**	2,555,761
	Staff benefit adjustment	**(1,557,216)**	915,187
	Insurance	**2,150,376**	2,557,359
	Training	**2,400,794**	1,878,704
	Total personnel expenses	**193,977,140**	171,987,729
11b	**Administrative expenses**		
	Repairs and maintenance - Buildings	**5,188,246**	10,520,410
	Postage and telephones	**3,260,485**	3,296,482
	Security	**-**	2,782,028
	Printing and stationery	**2,261,666**	2,544,014
	Cigarette Stamps - C.O.S.	**-**	1,365, 813
	Conference and Seminars	**-**	807, 835
	Subscriptions and publications	**727, 670**	567, 466
	Travel expenses	**3,476,066**	399, 442
	Electricity, water and rates	**1,026,007**	607, 453
	Sundry expenses	**-**	598,502
	Office rentals	**604,472**	253,399
	Insurance	**200,693**	287,352
	Obsolete stock write off/loss inventory differences	**-**	89,370
	Corporate social responsibility	**1,071,773**	-
	Board expenses	**445,104**	387,788
	Bank charges and interest	**985,053**	572,366
	Impairment provision-Banks	**-**	46,760
	Audit expenses	**252,832**	291,740
	Advertising & Public relations	**1,168,573**	2,009,926
	Staff uniforms	**1,295,861**	35,799
	Motor vehicle repairs	**2,180,578**	-
	Motor vehicle insurance and licence	**1,099,045**	-
	Fuel	**2,262,901**	-
	Total administrative expenses	**27,507,025**	27,463, 945

11 Expenditure analysis *(continued)*

		2010 K'000	2009 K'000
11c	**Operating expenses**		
	Professional fees	**12,023,771**	9,035,911
	Scanner Operations	**1,717, 941**	2,383,651
	Field work - fuel	**1,588,114**	2,132,363
	Security	**4,297,564**	-
	Repairs and maintenance - IT	**5,795,922**	1,379,582
	Cigarette Stamps - C.O.S.	**346,937**	-
	Travel	**5,428,452**	5,972,558
	Foreign travel	**-**	1,247,664
	Insurance	**-**	841,268
	Fuel	**-**	753,221
	Net exchange losses	**-**	252,571
	Relocating/Disturbance	**2,558,738**	1,962,800
	Printing and Stationery	**1,286,600**	-
	Advertising/promotional material, conferences and seminars	**905,072**	-
	Total operating expenses	**35,949,111**	25,961,589

12 Taxation

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

Notes to the financial statements *(continued)*
for the year ended 31 December 2010

13 Property, plant and equipment

	Leasehold buildings K'000	Plant and office equipment K'000	Motor vehicles K'000	Furniture fixtures and fittings K'000	Capital work in progress K'000	Total K'000
Cost/valuation						
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
Valuation	52,636,016	-	-	-	-	52,636,016
Disposals	-	(110,730)	(1,583,662)	(21,935)	-	(1,716,327)
Transfers	2,724,312	767,923	-	-	(3,492,235)	-
At 31 December 2008	98,399,957	45,599,810	17,655,223	4,247,518	9,664,529	175,567,037
At 1 January 2009	98,399,957	45,599,810	17,655,223	4,247,518	9,664,529	175,567,037
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	101,899,957	46,861,124	21,582,336	4,844,902	12,198,920	187,387,239
At 1 January 2010	**101,899,957**	**46,861,124**	**21,582,336**	**4,844,902**	**12,198,920**	**187,387,239**
Additions	**-**	**4,263,396**	**653,270**	**148,421**	**359,936**	**5,425,023**
Disposals	**-**	**(12,907)**	**(1,543,338)**	**(24,505)**	**(147,150)**	**(1,727,900)**
Transfers	**6,712,935**	**-**	**-**	**-**	**(6,712,935)**	**-**
31 December 2010	**108,612,892**	**51,111,613**	**20,692,268**	**4,968,818**	**5,698,771**	**191,084,362**
Depreciation and impairment losses						
At 1 January 2008	-	19,107,056	10,232,950	2,980,375	5,338,835	37,659,216
Charge for the year	-	3,662,675	2,147,150	132,835	-	5,942,660
Elimination 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
At 1 January 2009	-	22,678,434	11,087,500	3,096,704	5,338,835	42,201,473
Charge for the year	2,037,999	3,755,154	2,735,546	310,597	-	8,839,296
Elimination on disposal	-	-	(2,171,481)	-	-	(2,171,481)
At 31 December 2009	2,037,999	26,433,588	11,651,565	3,407,301	5,338,835	48,869,288
At 1 January 2010	**2,037,999**	**26,433,588**	**11,651,565**	**3,407,301**	**5,338,835**	**48,869,288**
Charge for the year	**2,172,258**	**4,068,507**	**3,162,357**	**378,543**	**-**	**9,781,665**
Elimination on disposal	**-**	**(12,907)**	**(1,336,651)**	**(24,505)**	**-**	**(1,374,063)**
At 31 December 2010	**4,210,257**	**30,489,188**	**13,477,271**	**3,761,339**	**5,338,835**	**57,276,890**
Carrying amounts						
At 31 December 2010	**104,402,635**	**20,622,425**	**7,214,997**	**1,207,479**	**359,936**	**133,807,472**
At 31 December 2009	99,861,958	20,427,536	9,930,771	1,437,601	6,860,085	138,517,951
At 31 December 2008	98,399,957	22,921,376	6,567,723	1,150,814	4,325,694	133,365,565

13 Property, plant and equipment *(continued)*

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

Leasehold buildings were revalued on the basis of open market value on 31 December 2008 for existing use by B.A. Property Consultants independent registered valuation surveyors. The resulting revaluation surplus of K52 billion has been credited to the revaluation reserve.

Leasehold land was not valued hence the cost of leasehold buildings excludes leasehold land. The cost of leasehold land is considered to be insignificant.

Included in property, plant and equipment are fully depreciated assets with a cost of K26,645 million (2009: K25,034 million).

14 Intangible assets

	Software K'000
Cost	
At 1 January 2009	-
Additions	-
At 31 December 2009	**-**
At 1 January 2010	-
Additions	**1,255,527**
At 31 December 2010	**1,255,527**
Accumulated depreciation	
At 1 January 2009	-
Charge for the year	-
At 31 December 2009	**-**
At 1 January 2010	-
Charge for the year	83,702
At 31 December 2010	83,702
Carrying amount	
At 31 December 2009	**-**
At 31 December 2010	**1,171,825**

15 Capital commitments

	2010 K'000	2009 K'000
Approved and contracted capital expenditure	**3,040,142**	2,194,851

The approved and contracted capital expenditure will be met through Government funding.

16 Inventories

	2010 K'000	2009 K'000
Stationary and cigarette stamps	**2,057,514**	1,488,540
Uniforms	**450,865**	22,641
Other consumables	**27,366**	16,477
At 31 December	**2,535,745**	1,527,658

The cost of inventories recognised as an expense during the period was K1,295 million (2009: K1,392 million).

17 Employee loans and advances

Employee loans and advances at the reporting date were as follows:

	2010 K'000	2009 K'000 Restated
Employee loans and advances	**8,056,775**	6,046,331
Fair value adjustment	**(3,145,210)**	(2,810,248)
	4,911,565	3,236,083
Included under non – current assets	**(1,561,754)**	(1,626,627)
Included under current assets	**3,349,811**	1,609,456

Employee loans and advances

Total loans receivables (net of allowances) held by the Authority at 31 December 2010 amounted to K8 billion (2009: K6 billion), comprising loans and advances to employees.

Employee 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% for personal loans and car loans and 10% for mortgage loans. The employee loans and advances are discounted using a market related rate.

For mortgage loans, the Authority holds on to the title deeds of employees property as security until the loan is fully repaid. The other loans are fully insured.

17 Employee loans and advances *(continued)*

The make up of employee loans and advances at the reporting date was as follows:

	2010 K'000	2009 K'000 Restated
Home ownership loan	**2,487,344**	2,480,634
Other loans	**3,776,633**	3,339,049
Vehicles ownership loan	**1,355,981**	648,399
Personal loan	**436,817**	298,532
	8,056,775	6,766,614
Allowances for impairment	**-**	(720,283)
	8,056,775	6,046,331
Maturity analysis		
Amounts falling due within one year		
- included under current assets	**3,349,811**	1,609,456
Amounts falling due after more than one year		
- included under non-current assets	**1,561,754**	1,626,627
Movement in the allowance for impairment		
At beginning of the year	**720,283**	782,487
Impairment loss recognised	**-**	10,961
Bad debts written off	**(720,283)**	(73,165)
At year end	**-**	720,283

Aging of impaired loan receivables

Of the total employees' loans and advances K720 million (2009: K73 million) which were impaired are more than 120 days.

The Authority provides fully for receivables over 120 days because historical experience indicates that recoverables that are past due beyond 120 days are generally not recoverable. Employees' loans and advances 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.

There were no loans and receivables that was past due but not impaired in 2010 (2009: Nil).

18 Other assets

	2010 K'000	2009 K'000 Restated
Other receivables	**432,557**	1,438,162
Prepayments	**-**	552,081
Staff loan benefit	**1,456,129**	2,810,249
	1,888,686	4,800,492

19 Cash and cash equivalents

	2010 K'000	2009 K'000
Held in:		
Zambia National Commercial Bank Plc	**14,510,219**	16,343,405
Cavmont Capital Holdings Plc	**159,880**	154,797
Bank of Zambia	**303,207**	125,071
Union Bank Zambia Limited (in Liquidation)	**35,799**	35,799
Finance Bank Zambia Limited	**1,142,610**	15,583
	16,151,715	16,674,655
Cash on-hand	**473,074**	247,247
	16,624,789	16,921,902
Impairment for Union Bank balances	**(35,799)**	(35,799)
	16,588,990	16,886,103

20 Employee related liabilities

	2010 K'000	2009 K'000 Restated	2008 K'000 Restated
End of contract gratuity	**52,517,094**	36,600,261	30,036,455
Leave pay	**9,428,254**	9,264,705	7,067,955
Retirement benefit	**18,284,025**	16,326,877	14,548,185
	80,229,373	62,191,843	51,652,595
Included under non –current liabilities	**51,329,709**	36,893,092	32,059,950
Included under current liabilities	**28,899,664**	25,298,751	19,592,645
	80,229,373	62,191,843	51,652,595

20 Employee related liabilities *(continued)*

	End of contract gratuity	Leave pay	Retirement benefit	Total
	K'000	K'000	K'000	K'000
Balance at the beginning of the year	36,600,261	9,264,705	16,326,877	62,191,843
Provisions for the year	39,038,770	487,952	12,465,950	51,992,672
Payments during the year	(23,121,937)	(324,403)	(10,508,802)	(33,955,142)
At end of the year	52,517,094	9,428,254	18,284,025	80,229,373

Maturity analysis

	End of contract gratuity	Leave pay	Retirement benefit	2010 Total	2009 Total
Amounts falling due within one year					
- included under current liabilities	21,006,838	3,771,302	4,121 524	28,899,664	25,298,751
Amounts falling due after more than one year					
- included under non-current liabilities	31,510,256	5,656,952	14,162,501	51,329,709	36,893,092
	52,517,094	9,428,254	18,284,025	80,229,373	62,191,843

21 Trade payables

	2010 K'000	2009 K'000 Restated
Local suppliers	**4,497,475**	6,497,627
One time suppliers	**2,541,363**	5,595,243
Total	**7,038,838**	12,092,870

22 Other payables

	2010 K'000	2009 K'000 Restated
Pay As You Earn payable	**7,800,050**	5,169,965
Sundry payables and accruals	**3,200,501**	3,630,360
NAPSA	**997,156**	861,853
Total	**11,997,707**	9,662,178

Included in sundry payables and accruals is an amount of K1 ,012 million being litigation claim payable as a result of a court judgement.

23 Financial instruments *(continued)*

(c) Currency risk

Exposure to currency risk

The Authority's exposure to foreign currency risk was as follows based on notional amounts:

	2010				2009			
	Kwacha	**GBP**	**USD**	**Total**	Kwacha	GBP	USD	Total
At 31 December								
Assets								
Other assets	**1,888,686**	**-**	**-**	**1,888,686**	3,072,980	1,727,512	-	4,800,492
Total assets	**1,888,686**	**-**	**-**	**1,888,686**	3,072,980	1,727,512	-	4,800,492
Liabilities								
Trade and other payables	**18,868,168**	**-**	**168,377**	**19,036,545**	20,750,374	44,106	960,604	21,755,084
Total liabilities	**18,868,168**	**-**	**168,377**	**19,036,545**	20,750,374	44,106	960,604	21,755,084
Net exposure	**(16,979,482)**	**-**	**(168,377)**	**(17,147,859)**	(17,677,394)	1,683,406	(960,604)	(16,954,592)

The following significant exchange rates applied during the year:

	Reporting date mid spot rate	
	2010	2009
USD1.00 to ZMK	**4,810**	4,642
GBP1.00 to ZMK	**7,428**	7,358

(d) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Other assets	**1,888,686**	**1,888,686**	4,800,492	4,800,492
Employee related liabilities	**(80,229,373)**	**(80,229,373)**	(62,191,843)	(62,191,843)
Cash and cash equivalents	**16,588,990**	**16,588,990**	16,886,103	16,886,103
Trade payables	**(7,038,838)**	**(7,038,838)**	(12,092,870)	(12,092,870)
Other payables	**(11,997,707)**	**(11,997,707)**	(9,662,178)	(9,662,178)
Employee loans and advances	**8,056,775**	**3,145,210**	6,046,331	2,810,248
	(72,731,467)	**(77,643,032)**	(56,213,965)	(59,450,048)

24 Customs deposits bank accounts

The Customs deposits bank accounts relate to monies held on behalf of importers pending assessments. The Customs and Excise Act, Chapter 322 of the Laws of Zambia requires that after 30 days any monies not refunded to importers be entreated to the Government. The corresponding liability to refund importers is included as a payable.

25 Tax refunds bank accounts

	2010	2009
	K'000	K'000
Value Added Tax ("VAT") refund	**49,804,814**	24,178,544
Customs refund	**5,850,580**	1,183,383
Income tax refund	**5,886,762**	381,883
	61,542,156	25,743,810

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

26 Contingent liabilities

There were legal proceedings outstanding against the Authority which were awaiting ruling/judgment by the courts of law as at 31 December 2010.

In the opinion of the Governing Board, these claims and lawsuits in aggregate will not have a significant adverse effect on the financial statements. All tax related litigation claims will be funded by the Government if they materialise.

27 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 lessee does not have options to purchase the properties at the expiry of the lease period.

The rental income earned by the Authority from its buildings, which are leased out under operating leases amounted to K378 million (2009: K204 million).

28 Related parties

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; or
- Members of the Governing Board and key management personnel.

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

28 Related parties *(continued)*

Examples of such transactions include:

- Funding
- Rental
- 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:

	2010 K'000	2009 K'000
Government funding received	**236,622,408**	205,014,000
Supplementary funding	**8,487,263**	5,900,000

Year end balances

Amounts due from related parties

	2010 K'000	2009 K'000
Tax refund accounts – included in current assets and liabilities	**61,542,156**	25,743,810
Customs deposit accounts – included in current assets and liabilities	**1,973,087**	5,339,939
Amounts receivable from the Government in relation to:		
Litigation and claims	**1,012,475**	-
Government funding	**9,466,896**	-
	10,479,371	-

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:

	2010 K'000	2009 K'000
Salaries and allowances	**8,909,582**	8,679,638
Post employment benefits	**2,259,723**	2,212,827
Sitting allowances	**445,104**	387,788
	11,614,409	11,280,253

29 Subsequent events

There were no material events subsequent to the reporting date that would require disclosure or adjustment to the statement of financial position at 31 December 2010 (2009: Nil).

30 Comparative figures

Comparative figures have been reclassified on notes 13,17,18,20,21 and 22.

31 Correction of prior period error

The prior year adjustment in 2008, relates to understatement of the revalued amount by K21 billion based on the fixed assets revaluation report.

The increase in property, plant and equipment in 2009 is the difference between the understated revaluation amount of K21 billion and the depreciation charge for 2009 of K2 billion.

The 2009 staff loan fair value adjustment of K1.2 billion and K928 million in 2008, results from the implementation of IAS 39 and IAS 19 in respect of below market interest on staff loans.

The employee benefit adjustment relates to the under statement of employee benefit provisions in 2008 and 2009.

	Effect on	
	2009	2008
	K'000	K'000
Total assets		
Total assets as previously reported	**178,351,070**	189,479,221
Increase in property, plant and equipment	**18,965,794**	21,003,794
Decrease in other assets	**(1,264,828)**	(928,990)
Total assets as restated	**196,052,036**	209,554,025
Capital fund and reserves		
Total capital fund and reserves as previously reported	**59,543,323**	61,142,433
Increase in property, plant and equipment	**18,965,794**	21,003,794
Decrease in other assets	**(928,990)**	(928,990)
Increase in employee related liabilities	**(13,404,799)**	(12,825,450)
Decrease in personnel expenses	**(335,838)**	-
Total capital fund and reserves as restated	**63,839,490**	68,391,787
(Deficit)/surplus for the year		
(Deficit)/surplus for the year as previously reported	**(1,599,111)**	14,669,733
Depreciation on buildings	**(2,037,999)**	-
Employee benefit adjustment	**(579,349)**	(12,825,450)
Below market adjustment on staff loans	**(335,838)**	(928,990)
(Deficit)/surplus for the year as restated	**(4,552,297)**	915,293

The Taxpayer Charter and obligations of the Taxpayer

Our 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 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.

Complaints and compliments

Contact
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