ZAMBIA REVENUE AUTHORITY

Working To Serve You Efficiently

2011 Annual Report

ZAMBIA REVENUE AUTHORITY | Working To Serve You Efficiently

Letter of Transmittal

CHAIRMAN OF THE GOVERNING BOARD

The Hon. Alexander B. Chikwanda, MP
Minister of Finance and National Planning
Ministry of Finance and National Planning
P. O. Box 50062
Lusaka

Dear Minister,

I have the pleasure of presenting to you, on behalf of the Governing Board, the 17th Annual Report of the Zambia Revenue Authority, covering the financial year 1st January 2011 to 31st December 2011.

This Report has been prepared in accordance with the requirements of the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia, enacted in 1993.

Yours faithfully

Charles L. Mutemwa
Chairman of the 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
BOZ	Bank of Zambia
BCP	Business Continuity Plan
CATA	Commonwealth Association of Tax Administrators
COMESA	Common Market for Eastern and Southern Africa
CPs	Cooperating Partners
CSARTS	Contributory Supplementary Anti-Retroviral Treatment Scheme
CSO	Central Statistical Office
DEC	Drug Enforcement Commission
DFID	Department for International Development (UK)
EU	European Union
FDI	Foreign Direct Investment
FMIS	Financial Management Information System
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IAS	International Accounting Standards
ICF	Investment Climate Facility for Africa
ICT	Information and Communication Technology
IGC	International Growth Centre
IMF	International Monetary Fund
ITAS	Integrated Tax Administration System
LTO	Large Taxpayer Office
MCU	Mobile Compliance Unit
MMD	Movement for Multi-Party Democracy
MoFNP	Ministry of Finance and National Planning
NGO	Non-Governmental Organisation
NTA	Norwegian Tax Agency
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PACRA	Patents and Companies Registration Agency
PEE	Prevention, Education and Enforcement
PEMFA	Public Expenditure Management and Financial Accountability
PF	Patriotic Front
PMDC	Performance Management and Development Contract
PMDP	Performance Management and Development Process
RTSA	Road Transport and Safety Agency
SADC	Southern Africa Development Community
SAP	Systems Application Products
SMTO	Small and Medium Taxpayer Office
SWOT	Strengths, Weaknesses, Opportunities and Threats
TIZ	Transparency International Zambia
TPIN	Taxpayer Identification Number
VSAT	Very Small Aperture Terminal
WCO	World Customs Organisation
WTO	World Trade Organisation
ZAMPOST	Zambia Postal Services
ZDA	Zambia Development Agency
ZFE	Zambia Federation of Employers
ZPPA	Zambia Public Procurement Agency
ZRA	Zambia Revenue Authority
ZRAIC	ZRA Integrity Committee

CORPORATE PROFILE

Introduction

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

The Governing Board oversees the operations of ZRA. The membership of this Board, as provided for in the Act includes: the Secretary to the Treasury; the Permanent Secretary Ministry of Justice; the Governor of the Bank of Zambia; a representative from 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 Chairman of the Board is elected from amongst its members.

The Chief Executive Officer of the ZRA is the Commissioner General who is appointed by the President of the Republic of Zambia.

Responsibilities

The main responsibilities of the Authority are to: -

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

Stakeholders

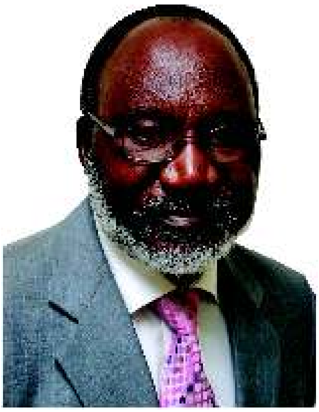
The stakeholders in the operations of the Authority include:

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

Governing Board

Mr. Charles L. Mutemwa
Chairperson

Mrs. Mbololwa L. Muyaba
Member



Mr. Vincent B. Malambo S.C.
Vice Chairperson

Mr. Fredson K. Yamba
Member

Mr. Francis Alutuli
Member

Dr. Michael Gondwe
Member

Mr. David Chewe
Member

Mr. Mwila Lumbwe
Member

Mr. Geoffrey Sakulanda
Member

Senior Management Members

Mr.Berlin Msiska
Commissioner General

Ms. Nana M. Mudenda
Board Secretary

Mr.Dingani C. Banda
Acting Commissioner - Customs Services

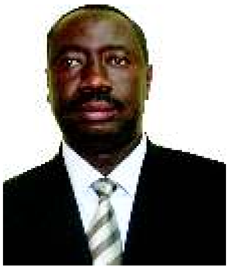
Mrs. Priscilla C. Banda
Commissioner Domestic Taxes

Mr. Maimbo C. Nyanga
Director Research & Planning

Ms. Inonge S. Wambulawae
Director Internal Audit

Mr. Kabaye N. Mwale
Director Finance

Mrs. Roselyne Raelly
Director Human Resource



Mr. Chansa Shambuluma
Director Small & Medium Taxpayer Office

Mr. Chris Habeenzu
Director Design & Monitoring

Mr. Yakomba Yavwa
Director Information Technology

Mr. Mambwe L. Kaenga
Deputy Commissioner HQ

Mr. Tenthani I. Banda
Director Administration

Mr. Moses Mfune
Acting Deputy Commissioner Operations

Mrs Diana Bunting Goramota
Legal Counsel

Mr. Danmore Mulima
Director Large Taxpayer Office

CHAIRMAN'S STATEMENT

I am pleased to present the 17th Annual Report of the Zambia Revenue Authority (ZRA) for the financial year ending 31st December, 2011.

Undoubtedly, Zambia's most significant political event for the year under review was the September 20 tripartite elections which ushered into Government the Patriotic Front (PF) and its leader Mr. Michael Chilufya Sata as Zambia's fifth Republican President.

Given the neck-deep poverty levels, widespread corruption, high rates of unemployment and the consequent general despondence, the Patriotic Front campaigned on promises of providing qualitative economic transformation, job creation, a concerted fight against corruption and better management of Government and public resources. On this basis, the PF defeated the Movement for Multi-Party Democracy (MMD) which had been in Government since November, 1991. The election of the PF into Government has created renewed hope and high expectations from the general public.

On behalf of staff and management of ZRA and on its own behalf, the Governing Board takes this singular opportunity to congratulate His Excellency President Sata on his outstanding success.

During the year 2011, the Eurozone financial crisis remained unresolved and continued to cause panic and economic instability in the European Union and beyond. The crisis which was triggered by the unsustainable debts accumulated by the Eurozone member states of Greece, Italy, Ireland, Spain and Portugal is a major threat to the global economy.

Germany and France, the two largest economies in the European Union are leading the efforts to try and resolve the crisis. Among other possible solutions, they have prescribed the common management of fiscal policies and practices and the fiscal integration of the European Union economies. It remains to be seen if a viable solution to this crisis will be determined.

It is pleasing to note that the Eurozone financial crisis and the global credit crunch did not have significant adverse impact on the Zambian economy. While most global stock markets were negatively affected by this crisis, Zambia's stock market performed well by registering a 22.0 percent rise. The underlying factors for Zambia's good performance in the face of these global economic challenges were the buoyant agriculture sector, favourable growth in the energy sector, continued growth in all the other sectors of the economy and political stability.

However, should the Eurozone financial crisis remain unresolved much longer, Zambia may experience reduced Foreign Direct Investment inflows, reduced levels of exports particularly base metals, decline of metal prices and a decrease in donor support levels to the National Budget.

During the year under review, Zambia's economy grew by 6.5 percent which was significantly lower than that for the year 2010 of 7.6 percent. This decline has been attributed to the lower than projected performance of the mining sector of 1.3 percent as against 15.2 percent for the year 2010. Growth in the other sectors of the economy was satisfactory.

The average annual inflation rate increased from 8.5 percent for the year 2010 to 8.7 percent for the period under review. This rise in the rate of inflation was due to increased food prices.

The metal production for the year was 869,058 tonnes of copper and 7,701 tonnes of cobalt. This was an improvement over the 2010 production levels of 852,566 tonnes for copper and a decrease from 8,648 tonnes for cobalt.

The average price of copper for the year at US $8,820.9 per tonne represented a significant improvement over that of the previous year of US $7,532.1 per tonne. The average price of cobalt on the other hand dropped from US $35,284.2 to US $32,830.2 per tonne.

The high bank lending rates continued to be of great concern as they restricted access to credit, limited local participation in the economy and undermined growth of the private sector. At an average of 26.0 percent, these bank lending rates tend to be unmanageable especially for long term capital investment.

In his 2012 budget address to Parliament on 11th November, 2011, the Minister of Finance and National Planning Hon. A. B. Chikwanda MP announced the following tax changes:

- PAYE exempt threshold was doubled to K24 million per annum.
- The 40 percent upper corporate tax rate for banks was abolished and replaced by the standard corporate tax rate of 35 percent.
- Corporate income tax rate for the agricultural sector was reduced from 15 percent to 10 percent.
- Mineral Royalty tax rates was increased from 3 percent and 5 percent for base metals and precious metals respectively to 6 percent.
- Incomes from core mining and hedging activities were to be taxed separately.
- Commission payments to non-residents were to be taxed at a rate of 15 percent.

These changes to direct taxes were with effect from April 2012.

The other tax changes were:

- Removal of copper and cobalt concentrates from the import VAT deferment scheme.
- Reduction of export duty rate on base metals and concentrates from 15 percent to 10 percent.
- Extensions of export duty taxes to unprocessed and semi-processed mineral ores.
- Exemption of duties on light passenger planes, helicopters and micro-lites.
- Doubling of the duty rebate threshold on travellers' personal effects to US $1,000.

These changes were with effect from January 2012.

The Hon. Minister of Finance and National Planning further proposed the harmonization of the fiscal year and the charge year to run from January to December.

With regard to investment incentives, the Hon. Minister of Finance and National Planning proposed to amend the

Zambia Development Agency Act by amending section 58 which gave the Agency discretional powers to grant additional incentives to investors. The purpose of this amendment is to undermine corruption opportunities, prevent leakages and enhance revenue mobilizations.

There is no doubt that a well-functioning tax administration is a pre-requisite for an efficient Government service. Our challenge as ZRA, therefore, is to satisfy the revenue needs required for the various national development programmes and the well-functioning of the Government.

On behalf of the Governing Board, I am glad to report that during the year under review, the Authority collected revenues amounting to K18, 928.0 billion against a target of K15,261.7 billion. This favorable performance was partly due to the settlement of tax arrears by mining companies. It is therefore, pleasing to note that the tax system has remained buoyant, maintaining a positive and direct relationship between economic growth and revenue off-take and improving the ratio of tax revenue to GDP from 16.9 percent in 2010 to 20.1 percent for 2011.

The challenge of widening the tax base and improving compliance are being actively considered. A tax is neither a fine nor a tribute nor indeed a donation. A tax is simply the necessary contribution by citizens towards running the business of their government that is to provide the essential services to the general public.

The good performance for 2011 is attributed to increased mining production favorable metal prices and improved compliance levels. In addition import VAT performed well on account of the increased value for duty purposes and the high volumes of imports. The under-performance in respect of taxes on domestic goods and services was due to under declarations and the accumulation of debt by some companies particularly those in the energy sector. International trade protocols have had a negative effect on the customs duties collections.

Apart from the negative aspects of human nature, the other causes of non-compliance are inadequate tax administration centers, poor infrastructure, under-manned border posts and porous border entries. The Governing Board, through management, is exploring every possible manner of effectively dealing with these challenges.

To further modernize and streamline its operations under the corporate plan for 2011 to 2013, the Direct Taxes Division and the Value Added Taxes Division were merged to create the Domestic Taxes Division within which specialized Tax Departments for large, medium and small taxpayer segments were established. All tax support functions at headquarters were consolidated into the design and monitoring department, while the position of Commissioner Corporate Services was re-designated to Board Secretary.

During the fourth quarter of the year under review, the President of the Republic of Zambia, His Excellency Mr. Michael C. Sata appointed the Commission of Inquiry into the operations of the Zambia Revenue Authority (ZRA).

The recommendations of the Inquiry with regard to Tax Administration were the establishment of more ZRA offices and appointment of agents for tax revenue collections, introduction of more consumption taxes and reduction of Direct Taxes Rates; review of the zero rated goods and services; VAT tax refunds; establishment of a Mining Tax Unit to be based on the Copperbelt and North-western Provinces; an analysis of the tax debt stock; and consideration of waving interest rates and penalties with a view to entering Time-to-Pay Agreements and thereby liquidate the debt stock.

After the year end, the Government accepted the findings and recommendations of the Commission of Inquiry and ordered that:-

- the ZRA contracts with the two named service providers for the operation and maintenance of scanners be terminated;
- the company that was awarded the contract to supply, install, operate and maintain the 8 scanners should be compelled to perform their contractual obligations;
- the pre-requisite for the installation and operations of scanners by the contractor be met by Government;
- the Zambia Revenue Authority assumes ownership of the scanners and determine appropriate measures for loan repayment for scanners;
- that the border concessions should be cancelled and Government assume responsibility for infrastructure development with immediate effect;
- the tax deferment that was awarded to a named beverages company should be revoked and the company be made to pay outstanding tax arrears;
- the contract that was awarded in respect of the management and maintenance border infrastructure at Chirundu be cancelled and that the Zambia Revenue Authority takes over the management of the facility; and
- an urgent review of the ZRA collections strategy and organization structure be made.

These Government directives will be implemented during 2012.

The recommendations of the Commission of Inquiry along with the reforms under the modernization programme are expected to help the Authority achieve greater performance in Tax and Customs Administration in the medium term.

While the Government continued providing unwavering support, the Authority experienced resource constraints especially for its infrastructure development programmes at various ports of entry. It is the Governing Board's desire that government funding will increase to levels which will enable the Authority implement its programmes smoothly.

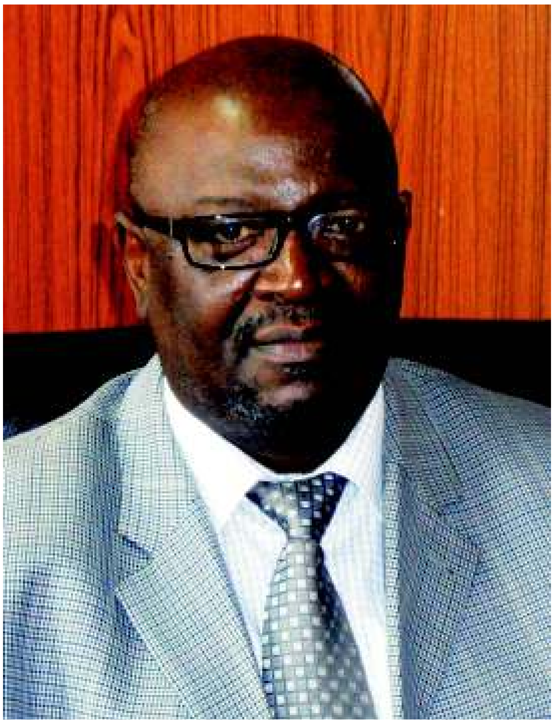
During the year under review, there were a number of changes at senior management level. Mr. Wisdom Nhekairo who served the Authority in various management positions and was made Commissioner General in October 2010 was replaced by Mr. Berlin Msiska. Mr. Muyangwa Muyangwa who held the position of Commissioner Customs Services resigned and his replacement Mr. Mukela Mutukwa also separated from the Authority. Mrs Priscilla Banda was appointed Commissioner Domestic Taxes. Mr. Maimbo Nyanga replaced Dr. Samuel Bwalya as Director Research and Planning while Mr. Danmore Mulima became Director Large Taxpayer Office taking over from Mrs. Priscilla Banda.

On behalf of the Governing Board and indeed on my own behalf I wish to register my sincere appreciation of the leadership and guidance the Board has continued to receive from the Minister of Finance and National Planning and his staff. I would also like to pay tribute to the former Governing Board which served from January 2011 to September 2011 for the outstanding performance during its tenure.

Finally, let me express my appreciation to the Governing Board, management and staff for their hard work and support during the year.

Charles L. Mutemwa
Chairman of the ZRA Governing Board

COMMISSIONER GENERAL'S REPORT



This report reviews the performance of tax revenue and operations of the Authority

Revenue collections in 2011 remained robust, with total collections exceeding the budget estimate by K3, 666.3 billion or 24.0 percent above target. The Authority collected total revenue amounting to K18, 928.0 billion against a Parliament target of K15, 261.7 billion. The ratio of tax revenue to GDP in the review period stood at 20.1 percent including revenue from mining tax arrears. However, after removing the mining tax arrears, the tax to GDP ratio stood at 18.2 percent.

Impressive performance was recorded from income taxes which was attributed to increased payments from the mining sector and increased compliance management activities, such as increased audits and debt collection. The good performance of mining taxes was attributed to favourable copper prices on the world market as well as increased copper and cobalt production.

Taxes on domestic goods and services marginally underperformed mainly due to compliance challenges and accumulation of debt by some companies especially in the energy sector.

Notwithstanding the foregoing, international trade taxes such as import VAT, performed well on account of an increase in the value for duty purposes on taxable transactions. However, customs duty did not perform as expected mainly on account of increased importation of goods under various regional and international trade protocols.

Managing Zambia's tax administration system requires that we make choices about where to best apply the resources available. Our actions are guided by the Corporate Plan. In line with the Corporate Plan, particular emphasis was placed on improved monitoring and evaluation towards tangible results. We have endeavoured to identify the outcomes to be delivered and the indicators to be used to monitor and measure performance.

Consequently, the strategic priorities that will guide us over the next two years are: revenue collection optimization; improved service delivery; enhanced operational efficiency; enhanced staff professionalism and productivity; and improved operational infrastructure.

Further, our role is not only to mobilise funds for Government to do its work, but also to support the overall objectives of the Government. This among other things entails cutting red tape and other barriers to entrepreneurship and economic growth through initiatives such as the consolidated tax registration form and increased payment options. It also entails providing platforms for enhanced and efficient trade facilitation for goods and services into and through Zambia for national and regional economic development.

Managing an efficient tax system entails focusing on securing the supply chain, skills development of the staff and their integrity. The Authority remained committed to addressing challenges concerning corruption and integrity issues amongst its staff.

To administer our tax system effectively, we rely on the contribution of the business community, consultants, representative business bodies and taxpayers. I, therefore, would like to thank them all for helping us deliver the revenue that is so important to the Zambian people. Equally, I would like to thank the Governing Board and our employees who responded professionally to the challenges encountered in 2011.

Berlin Msiska
Commissioner General

Overview of the Authority

OVERVIEW OF THE AUTHORITY

The Corporate Plan

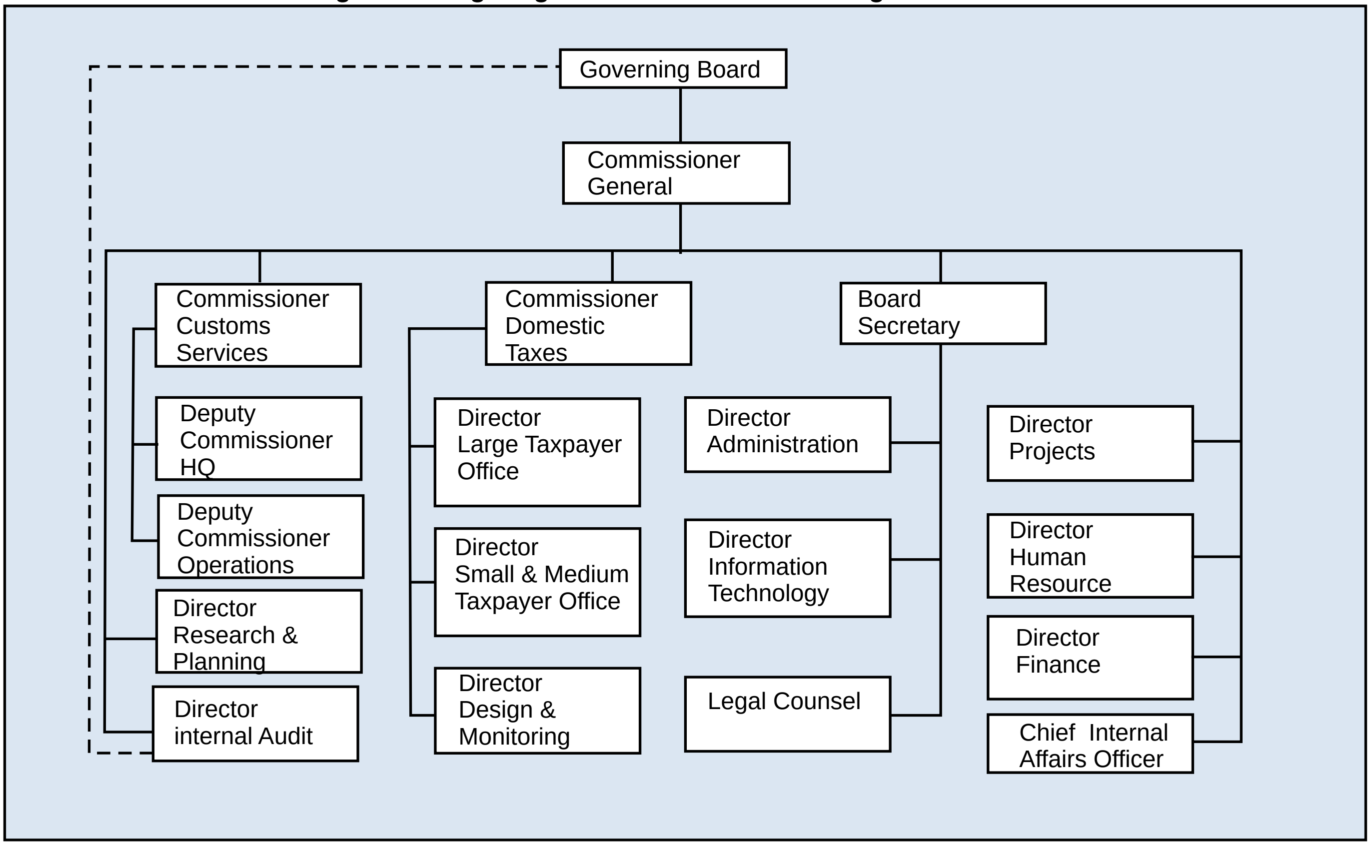
In 2011, the Authority commenced the implementation of its new medium term Corporate Plan spanning the period up to 2013. The new Corporate Plan contains the following five strategic objectives:

- to optimise revenue collection;
- to improve service delivery;
- to enhance operational efficiency;
- to enhance the professionalism and productivity of the workforce; and
- to improve infrastructure.

Secretary.

Other senior management members include Deputy Commissioner - Operations; Deputy Commissioner - Headquarters, Director - Large Taxpayer Office; Director - Design and Monitoring; Director - Small and Medium Taxpayer Office; Legal Counsel; Director - Administration; Director - Human Resource; Director - Internal Auditor; Director Projects ; Director - Research and Planning; Director - Information Technology; and Director - Finance (see Figure 1).

Figure 1: Organogram for Senior ZRA Management - 2011



Our plans were implemented with a view to achieving our strategic objectives. Notable achievements in 2011 included: revenue collection which exceeded the set target by 24.0 percent; establishment of the Call Centre to improve service delivery; and completion of the review of the Performance Management and Development Process (PMDP) in order to enhance professionalism and productivity of the workforce.

Administration of the Authority

The Commissioner General as the Chief Executive Officer is responsible for implementing the tax administration system and a wide range of tax laws.

In executing his mandate, the Commissioner General is assisted by the Commissioner Domestic Taxes, Commissioner Customs Services and the Board

The top management of the Authority make up what is termed as the Senior Management Members (SMM). In leading the SMM, the Commissioner General has specific responsibilities which include:

- developing strategic directions for the organisation;
- approving action plans;
- monitoring overall delivery against commitments and initiating corrective action, where necessary;
- approving necessary resource shifts between Action Plans; and
- assuring Parliament, Government and the taxpayers that the integrity of the tax system is being maintained. This includes assurance of the performance reports.

Further, in performing this role, the SMM reviews key financial and non-financial performance indicators including performance against action plans.

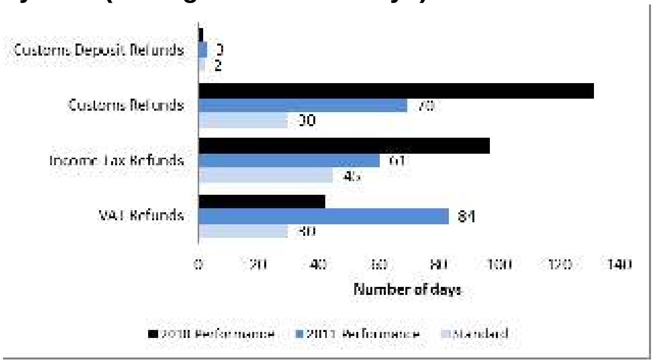
In addition, SMM examines a range of submissions that affect the institution's strategic direction. In order to carry out this responsbility, the SMM meets at least once a month.

The Taxpayer Charter

During the year under review, the Authority continued to monitor its performance against the standards set in the Taxpayer Charter. The service standards in the Taxpayer Charter can be divided into two broad categories namely; standards related to the processing of tax refunds and those related to tax registration and advisory services.

Based on average processing time, the Authority performed below standard for all refund related standards although this performance was better than the performance in 2010 (see Figure 2).

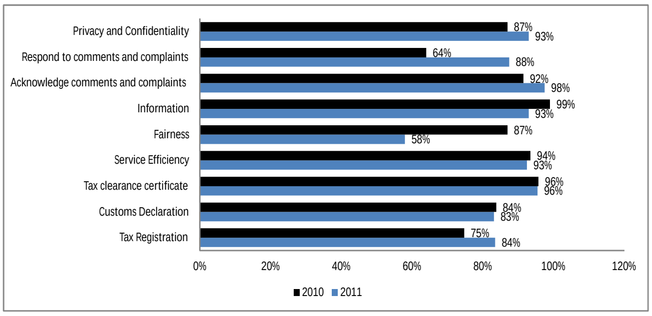
Figure 2: Efficiency of tax refunds processing system (average number of days) in 2011 and 2010



However, with regard to tax registration and advisory services the Authority performed relatively better in 2011 compared to 2010. During the period under review, the Authority managed to respond to 98 percent of all comments and complaints within the set benchmark of five days. Exceptional performance was also recorded on tax clearance certificates with 96 percent of certificates having been processed within 48 hours as set in the Taxpayer Charter.

Figure 3 shows the performance of the Authority under tax registration and advisory services in 2011 and 2010. Notably, with the exception of Response to Comments and Complaints; Acknowledgement to Comments and Complaints; and Tax Clearance Certificates, all percentages reported in the figure represent taxpayers' perceptions on how the Authority serves them. With regard to privacy and confidentiality, for example, 93 percent of taxpayers reported having been treated with privacy and confidentiality by ZRA staff in 2011 compared to 87 percent in 2010.

Figure 3: Effectiveness of taxpayer registration and Advisory Services in 2011 and 2010



Our Priorities for the Year

OUR PRIORITIES FOR THE YEAR

Our corporate priorities for 2011 were aimed at ensuring maximising revenue collection and increasing the levels of voluntary compliance.

Among the strategies employed were the following:

Taxing the Informal Sector and Widening the Tax Base

Taxing the informal sector can make a significant contribution to widening the number of taxpayers and thus contribute to revenue enhancement.

During the year under review, the Authority embarked on strategies for widening the tax base. The Authority's main priority in this area was to simplify the tax system and improve tax administration. In this regard, ZRA continued to administer a simplified tax regime for the informal sector, which includes the use of presumptive taxes. The introduction of these simplified tax schemes has had some positive impact in increasing tax compliance of small firms and individuals.

The simplicity of such taxes has also helped to reduce the costs of monitoring and collecting revenue in the informal sector. Notwithstanding some success, the Authority in 2011 embarked on an aggressive plan to collect more revenue from the informal sector.

Within the 2011 to 2013 Corporate Plan, an informal sector taxation work plan has been incorporated whose major activities include:

- the enhancement of taxpayer services and expansion of tax payment points. This involves putting in place an improved electronic communication strategy that takes advantage of new technologies such as use of mobile telephone services. In this area, ZRA is also embarking on enhancing its Website to include interactive platforms and increasing staffing levels to manage outreach programmes including the Call Centre, which is now fully operational.

- simplification of the tax registration process through the use of consolidated tax registration forms and One-Stop-Shop services where other allied institutions are present. The aim of this strategy is to reduce the cost of compliance and consequently improve taxpayer compliance. In addition, we hope that One-Stop-Shop services will improve interface with other stakeholders that are useful in enforcement and compliance activities. Notable among these stakeholders are Patents and Companies Registration Agency (PACRA), the Ministry of Lands, Zambia Public Procurement Agency(ZPPA), Zambia Police Service, Drug Enforcement Commission (DEC) and the Anti-Corruption Commission (ACC).

- enhancement of third party co-operation whereby the Authority has engaged institutions such as the Road Transport and Safety Agency (RTSA), Zambia Postal Services, Local Authorities and commercial banks in collecting tax revenue on its behalf.

During the year under review, the Authority embarked on developing a taxpayer education and outreach strategy for the informal sector. This includes initiatives to introduce tax education in the primary and secondary education system.

Further, the Authority embarked on an exercise of considering a strategy for developing simplified and translated tax materials to cover major local languages as part of its outreach strategy.

Improving the Tax Collection from Consumption Taxes

In order to improve tax collection from consumption taxes, the Authority commissioned several external and in-house studies that have studied the performance of consumption taxes in particular domestic VAT and local excise duties.

These studies investigated the causes of poor performance and made recommendations on how to remedy the areas of poor performance.

Among the initiatives that were introduced include the establishment of a special unit within the Customs Services Division to solely administer excise duty and put in place all the relevant controls and oversight.

In the case of domestic VAT, a VAT Taskforce was established in the review period with the aim of investigating the causes of poor performance and make appropriate recommendations.

In addition, the Authority instituted investigations on the operation of the VAT refund mechanism to establish the factors that were affecting the increase in refunds and prevailing challenges.

Implementing Enforcement and Compliance Activities

In order to complement enforcement activities in the clearance of goods resulting in reduced processing time and increasing compliance among importers and exporters, the Authority stepped-up efforts in the use of non-intrusive inspection equipment commonly known as scanners in the examination of imports and exports at Chirundu and Livingstone ports of entry.

In the review period, a total of 31,073 trucks (or 49 percent) out total truck traffic of 63,312 were scanned at the two ports of entry.

Out of the trucks scanned 128 were found with discrepancies. Consequently the Authority realised K0.41 billion in revenue arising from the discrepancies reported.

During the period under review, the Authority, through its Mobile Compliance Unit (MCU), remained active and collected a total of K2.6 billion from the Unit's enforcement activities, representing a 24.9 percent decline in revenue collected compared to 2010.

The decline in revenue represents an improvement in the general compliance of the taxpayers on account of the consistent application of this compliance strategy.

Of particular interest, the major cases encountered by the MCU in the review period related to under valuation, under declaration and smuggling of various commodities and vehicles.

The enforcement activities that were undertaken at various ports relied on random and risk based approaches mainly through inspections, road blocks and follow ups on intelligence leads received from the various stakeholders. It also involved compliance visits of bonded warehouses and customs areas at inland ports.

A comparison in the detentions and seizures effected in the year under review compared to 2010 indicates a decline of 36.4 percent. The detentions and seizures mostly related to motor vehicles, goods that had overstayed in Customs Areas as well as those pending payment and those that were under declared.

Business Development

ASYCUDA Enhancement

The key customs business development initiatives during the year under review included the centralization of the ASYCUDA ++ Cashiering System which was rolled out to all stations. The implementation of this system enabled taxpayers to make payment for duties and taxes at any Customs station. In addition, Domestic Taxes Division stations were configured with ASYCUDA++ system to enable them receipt customs payments.

Further, ASYCUDA++ System was rolled out at Nchelenge port of entry bringing the number of Customs Service Stations with this system to 18. The continued automation of customs stations has resulted into improved service delivery as clients' imports and exports are processed timely.

New Tax Administration System for Domestic Taxes Division and Enhanced Electronic Applications

In the review period, the Authority finalized the initial preparations and procurement processes for the replacement of the current Integrated Tax Administration System (ITAS) with a new and robust system.

The new tax administration system is expected to be fully functional and integrated, with provision for e-registration, e-filing and e-payments. It is envisaged the use of the new system will reduce the cost of compliance for taxpayers and free man hours of the Authority's staff to perform other tax administration tasks.

The other information and communication technology related strategies that the Authority undertook in 2011 involved the following: procuring a web based system for customs operations, establishing a centralized document processing centre at Revenue House, providing a functional records management system, upgrading the currently our VSAT and procuring an appropriate software package for the purpose of effectively monitoring and evaluating implementation of all planned activities.

For the Authority, this was a necessary priority because it is expected to improve tax administration and also improve taxpayer services and tax education programmes. It will also minimize manual processing, delays, errors and exposure to unethical practices.

Further, it will enhance the processing of tax returns, rationalize the audit processes and improve arrears management.

Upgrading SAP System

Other key focus areas in information technology development included the upgrading of SAP financials and implementation of the SAP human resources and payroll module.

The upgrade of SAP has resulted in enhanced analytical tools to enable financial forecasting, automated end-to-end reconciliations, improved management of personnel and financial records resulting from the integration of human resource and payroll modules. Reporting features have also been enhanced to help management monitor expenditure patterns to enable them control divisional budgets.

Furthermore, the human resource and payroll modules now share the same database which will eliminate the current inconsistency in leave days records held by the Human Resource and Finance Divisions and instead enhance consistency of the records kept by the two divisions.

Modernization Reforms

In 2011, the Authority continued to implement tax administration reforms which started in 2006. These reforms aimed at making the tax collection system efficient and effective. Already, through these reforms, ZRA has established dedicated offices for small, medium and large taxpayers.

In addition, with the help of Government, the Authority has put in place a strategy to improve physical infrastructure, especially at the borders and selected stations. Improved infrastructure will enhance ZRA's ability to improve interaction with its taxpayers as well as strengthen taxpayer support services.

The modernization reforms placed emphasis on capacity building of the Authority's staff. Part of this initiative involved, training of staff to further develop their capacity in specialized audits and administration especially in areas such as natural resource taxation. In this regard, a specialized Mining Tax Unit (MTU) was established to undertake specialized taxation of the mines. This MTU remained functional in 2011 and reached several milestones such as: capacity building in the area of auditing of mines and carrying out of joint audits with the Norwegian Tax Administration (NTA).

Further, in the same year, the IMF undertook two missions to the Authority. The first was a scoping mission whose purpose was to assess the strength and weaknesses of the Authority specifically in taxation of the mining industry. As a result of this mission, a detailed work plan covering the two year period of NTA-IMF-ZRA cooperation was agreed.

The second IMF mission was on the implementation of the final pillar of the modernisation programme which relates to the implementation of a new ITAS to replace the current ITAS. Key among the recommendations of this mission was the continued need to focus on business processes to drive transformation efficiency and efficacy by engaging taxpayers in reviewing the business processes within the replacement ITAS to ensure that the new system leverages best practice models.

Stakeholder and Donor Coordination and Relation

In the year under review, the Authority continued to enjoy amiable relationships with several Cooperating Partners (CPs), which resulted in the Authority receiving significant assistance in the form of direct funding and technical assistance.

The Authority engaged with several stakeholders and Cooperating Partners for the purpose of enhancing support to tax administration strategies that are outlined in the Corporate Plan. The key external partners that were engaged were the following:

Investment Climate Facility for Africa

The Investment Climate Facility for Africa (ICF) is a partnership between African Governments, the private sector and donor agencies. It brings together key actors with a long term interest in Africa's economic growth and development to identify and implement practical steps to reduce barriers to investment and create a more favourable investment climate.

In 2011, the Authority partnered with ICF in a project to improve its service delivery and contribute to the reduction of the cost of doing business for taxpayers. ICF funded ZRA in its quest to enhance communication and taxpayer education. Through this partnership ZRA set up a national Call Centre to ensure that taxpayers get information without necessarily visiting ZRA offices.

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

GIZ is the implementing agency for Technical and International Cooperation of the German Government. Its main area of support to Zambia is Good Financial Governance. The project supports the Zambian Ministry of Finance and National Planning and comprises three components: Domestic Resource Mobilization; National Planning and Budget Preparation; and Budget Execution and Control Systems.

Within the component of Domestic Resource Mobilisation, the project supports the Zambian Revenue Authority (ZRA) in achieving the objective of collecting public revenues fairly and efficiently through improved service delivery for taxpayers. This component emphasizes support to three key areas namely Small and Medium Enterprise (SME) taxation; improved service delivery (increased taxpayer registration) and Management Information System support. That way, it contributes to the development of a fair, efficient and transparent tax system in Zambia which is important for achieving Zambia's overall objective of transparent, accountable and development oriented policy formulation and execution.

During the year under review, a short term consultancy on SME taxation was commissioned whose objective was to detect and assess the sources of poor tax compliance among SMEs.

The study was concluded in the same year and made recommendations on tax policy and tax administration concerning SME taxation. As a result of this study, ZRA developed and incorporated a specific work plan on SME taxation, into its corporate plan. The other key activity to be undertaken under this cooperation involves improving service delivery, and improving management information systems through developing a monitoring and evaluation framework that will be tailored to the needs and organizational structure of ZRA and its field offices in the provinces. To attain the results of this activity, GIZ and ZRA agreed to engage a long term Advisor to be based at ZRA whose responsibility will be to foster a coherent and coordinated approach to GIZ sponsored capacity development programmes within ZRA in addition to providing advice on tax policy and tax administration.

Public Expenditure Management and Financial Accountability Programme

The cooperation with the Programme on Public Expenditure Management and Financial Accountability (PEMFA) aims to support enhanced tax administration.

PEMFA is a cross-donor programme which has six support components for ZRA namely; infrastructure development/maintenance; training capacity; institutionalising project management within the Authority's administrative structure; enhancing ICT solutions in tax administration; supporting research and planning; and widening the tax base.

International Growth Centre

The International Growth Centre (IGC) is a cross-donor programme that supports research in tax administration. In 2011, IGC supported the Authority in the review and analysis of mining taxation. This review resulted in new legislation being enacted in respect of treatment of hedging income in the 2012 national budget.

Other Cooperating Partners

Other partnerships which continued during the year were with multilateral organisations such as the IMF, WCO, WTO, COMESA, SADC, EU, OECD and ODI.

At the bilateral level, the Authority continued enjoying good working relations with other Revenue Authorities in the region and engaged in information sharing and exchange visits.

At national level, the Authority worked closely with other private and public institutions such as the Ministry of Finance and National Planning, Bank of Zambia, National Assembly, commercial banks, Zambia Development Agency, Anti Corruption Commission, Drug Enforcement Commission, the Zambia Police and the Judiciary.

Staff Integrity and Fraud Prevention

The centre piece of the Authority's latest effort to improve the tax administration climate and reduce risks of fraud and corruption was the creation of Zambia Revenue Authority Integrity Committee (ZRAIC) in 2006.

In the review period, ZRAIC continued to operate independently and helped to promote integrity and professionalism among staff and also addressed taxpayer complaints of unethical conduct by staff and unsatisfactory service delivery.

During the same period the Authority continued to investigate or act on all allegations of fraud and serious misconduct by its employees, and also worked with other law enforcement agencies where appropriate.

In this regard, the Internal Affairs Unit which is mandated to investigate all matters pertaining to corruption, fraud and other malpractices involving the Authority's employees remained pro-active.

Corporate Social Responsibility

The Authority has in place a Corporate Social Responsibility (CSR) programme. This programme targets local communities, employees of the Authority, taxpayers and the physical environment in which the Authority operates.

During the year under review, the Authority undertook several CSR programmes to help improve the Authority's corporate image and increase public confidence in the work of the Authority.

In this vein, the Authority spent a total of K204.3 million on CSR activities of which K57.2 million was spent on staff welfare activities, K118.1 million on local community initiatives and K29.0 million on stakeholder engagement programs.

Local community initiatives included largely donations to female prisoners, abused women and underprivileged members of society.

Other activities included support to traditional ceremonies and maintenance of the environment in the proximity of the Authority's offices.
On staff welfare activities the Authority supported activities that promote social integration amongst members of staff and other stakeholders through various sporting activities.

Staff Welfare and Relations

HIV and AIDS

Zambia Revenue Authority has in place strategies to mitigate the impact of HIV and AIDS. These strategies include: an HIV and AIDS policy, related workplace programmes, peer educators programme, a contributory scheme for access to Anti-Retroviral (ART) Therapy and a medical scheme.

At the close of the review period, the membership to the Contributory Supplementary Anti-Retroviral Treatment Scheme (CSARTS) stood at 411 employees out of a work force of 1,255, representing 32.7 percent of the workforce.

Of those members of staff who contributed to this scheme, 80 members were accessing ART. This represents 19.5 percent of the total membership on the scheme and 6.4 percent of the total workforce of the Authority.

Employee Relations

In the review period, industrial relations remained stable as Management and the Zambia Revenue Authority Workers' Union (ZRAWU) concluded the negotiations for the 2012 conditions of service in a harmonious environment.

Managing Our Resources

MANAGING OUR RESOURCES

Operational Performance

Income

ZRA is a grant-aided institution whose budget for both operations and infrastructure is dependant on funding support from the Government. In this regard, its overall performance is dependant on the level of funding. During the period under review, the Authority operated with an income of K306.7 billion of which K266.3 billion was Government appropriated funding. This funding increased by K29.8 billion in 2011 representing an increase of 12.6 percent from 2010 level.

Income from ASYCUDA fees was K26.1 billion in 2011 up from K21.7 billion in 2010. Other income reduced by 20.0 percent, from K4.2 billion in 2010 to K3.3 billion in 2011, of which proceeds from cigarette stamps sales at K1.5 billion was the highest followed by sundry income at K1.3 billion.

The Authority in this same period received financial support from Investment Climate Change for Africa (ICF) amounting to K1.3 billion for implementing the integrated tax administration system with e-registration, e-filing and e-payment options.

Recurrent Expenditure

Being a service-oriented organization, staff costs account for a larger share of the Authority's recurrent expenditure, which in the review period accounted for 76.0 percent of the total income followed by inspection and enforcement costs at 17.0 percent while administrative costs accounted for 8.0 percent.

During the period under review, staff costs increased by 21.0 percent compared to 2010 largely due to actuarial adjustments on staff benefits. Inspection and enforcement costs increased by 42.0 percent while administrative costs decreased by 15.0 percent.

The excess of expenditure over income was recorded at K14.6 billion in 2011 and was largely attributed to the increase in staff costs by K23.0 billion arising from the harmonization of terminal benefits with the requirements of the International Accounting Standards (IAS) 19- *Staff benefits* which were re-calculated by Actuarial Specialists during the year.

The Authority operates a defined benefit retirement plan. Under this plan, the employees are entitled to retirement payment based on the number of years worked and their terminal salaries at retirement. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by estimating the expected future cash flows using interest rates of Government bonds which are denominated in the currency in which the benefit will be paid, and have terms to maturity approximating to the terms of the related pension liability.

Capital Expenditure

In addition to the above operating expenses the Authority spent K5.4 billion in capital expenditure on refurbishment and rehabilitation of infrastructure, procurement of operational vehicles and Information Communication Technology equipment.

The detailed financial performance based on Accrual Basis of Accounting is shown in the Financial Statements from pages 48 to 80.

Economic Performance

ECONOMIC PERFORMANCE

Gross Domestic Product

In 2011, the economy, as measured by the Gross Domestic Product, grew from K 77, 679.4 billion in 2010 to K 93,963.8 billion in 2011.This translates into a real growth of 6.5 percent compared to 7.6 percent recorded in 2010 (see Table 1).

The sectors that recorded significant real growth include Transport, Storage and Communication which grew at 12.3 percent, Community, Social and Personal Services at 8.5 percent and Electricity, Gas and Water at 7.9 percent. The Agriculture, Forestry and Fishing Sector also recorded high growth at 7.7 percent.

The structure of the economy in terms the contribution to GDP per sector remained fairly unchanged in 2011 compared to 2010.

Despite a slight fall in its share contribution, Wholesale and Retail Trade was the largest at 15.1 percent followed by Agriculture, Forestry and Fishing at 12.6 percent.

Inflation

The annual inflation rate remained within the single digit range throughout the review period. It reached the maximum rate of 9.2 percent in March and a minimum rate of 7.2 percent in December (see Figure 4). Despite the rise in the average annual inflation rate from 8.5 percent in 2010 to 8.7 percent in 2011, inflation remained stable throughout the year.

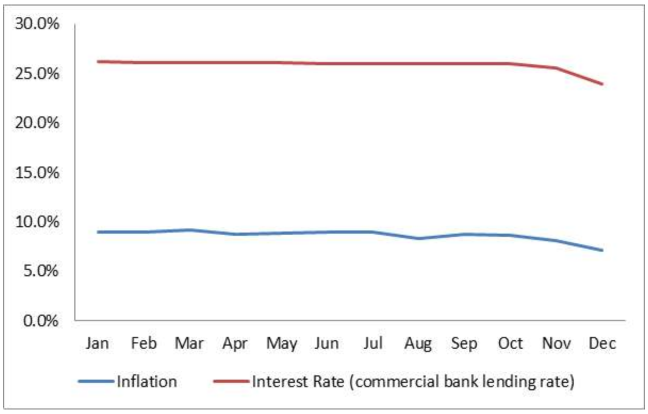
The stable rate of inflation was largely attributed to stability in fuel prices on the local market during the year. This was despite the rise in the price of the commodity on the international market.

Interest Rate

During the year under review, the commercial bank lending rate remained stable at about 26 percent throughout the year except in December when the rate decreased to 24 percent (see Figure 4).

The average lending rate by commercial banks in 2011 was 26 percent compared to 28 percent in 2010. The observed trend in the lending rate was consistent with the declining trend in the annual rate of inflation.

Figure 4: Inflation and interest rates in 2011



Source: CSO and Bank of Zambia

Exchange Rate

The Kwacha to US Dollar exchange rate stood at K4, 766.31 in January 2011 and remained quite stable up to the end of the first quarter. However the Kwacha depreciated to K5,117.29 per US Dollar in December (see Figure 5). The depreciation of the Kwacha during the year was mainly attributed to the uncertainty cast on market players by the tripartite elections that took place in September 2011 resulting in the change of Government.

Figure 5: Exchange rate movement in 2011

Source: Bank of Zambia

Table 1: Growth and share of GDP

	Percentage growth		Percentage share	
KIND OF ECONOMIC ACTIVITY	**2011**	**2010**	**2011**	**2010**
Agriculture, Forestry and Fishing	7.7	6.6	12.6	12.5
Mining and Quarrying	1.3	15.2	9.4	9.9
Manufacturing	5.0	4.2	9.1	9.2
Electricity, Gas and Water	7.9	7.4	2.4	2.4
Construction	7.2	8.1	11.8	11.8
Wholesale and Retail trade	5.3	4.2	15.1	15.3
Restaurants, Bars and Hotels	5.0	10.2	2.3	2.4
Transport, Storage and Communications	12.3	14.9	10.4	9.9
Financial Institutions and Insurance	6.0	6.0	7.1	7.1
Real Estate and Business services	2.9	3.0	7.5	7.7
Community, Social and Personal Services	8.5	5.3	8.7	8.6
TOTAL[1]	6.5	7.6	100.0	100.0

Source: CSO

[1] Total growth and shares include net taxes on products and Financial Intermediation Services Indirectly Measured (FISIM)

Commodity Prices

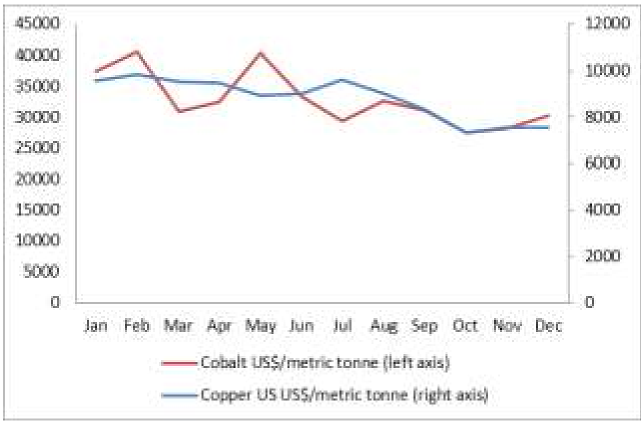
Movements in prices of copper and crude oil on the international market which are the country's major export and import respectively have a significant impact on the performance of the economy.

During the year under review, the price of copper remained favourable in comparison to 2010. However the prices of crude oil and cobalt were unfavourable. This tended to have a neutralising effect on the overall balance of trade for Zambia (see Table 2).

Notably, the average price of copper in 2011 stood at US$8,820.90 per metric tonne compared to US$7,532.10 per metric tonne in 2010 while the average price of crude oil increased from US$78.70 per barrel in 2010 to US$105.30 per barrel in 2011.

Although the average price of copper remained favourable during the year compared to 2010, the monthly dynamics in the prices of copper, cobalt and crude oil on the international market indicate that the prices of metals (copper and cobalt) tended to fall across the year while the price of crude oil had a rising trend (see Figures 6 and 7).

Figure 6: Price of copper and cobalt in 2011



Source: Bank of Zambia

Copper Production

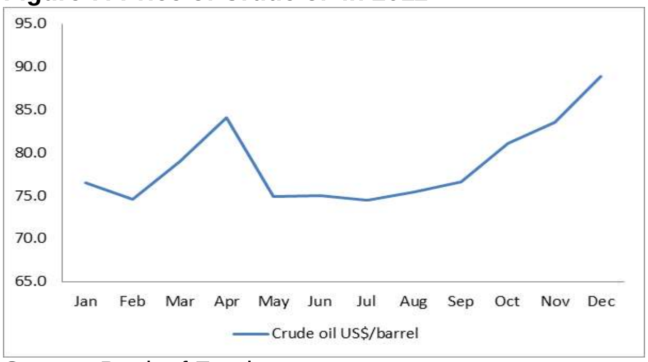
During the year under review, production of copper, the country's major export, increased to 869,058 metric tonnes from 852,566 metric tonnes in 2010. Copper exports also increased between 2010 and 2011 from 829,726 metric tonnes to 876,555 metric tonnes respectively[2].

Tax Policy Support

During the year under review the Authority continued to have a significant role in the design, development and implementation of tax policy through its membership to the Tax Policy Review Committee under the MoFNP.

As part of its mandate the Authority provides tax statistics and advice on tax administration to various stakeholders. It is in this vein that the Authority provided timely responses to ministerial requests both on tax policy and tax legislative design to the MoFNP. This included matters relating to revenue and administrative impacts of tax policy proposals and preparation of layman's drafts to changes in legislation.

Figure 7: Price of Crude oil in 2011



Source: Bank of Zamia

Budget Legislation

Tax legislation continues to be a significant part of the government's legislation program, with new measures being introduced each year.

In the 2011 fiscal year Parliament passed 3 Bills containing 40 tax measures, with a significant number of these becoming effective from 1st January 2011 following changes to the budget cycle.

The bulk of the measures were Customs related which had 16 measures while VAT had 12 measures. Income Taxes also had 12 measures.

The Authority has remained steadfast in clarifying tax proposal changes through various media such as budget highlights, budget night, brochures, stakeholder workshops and the website.

Table 2: Commodity prices in 2011 and 2010

	Copper US$ per metric tonne		Cobalt price US$ per metric tonne		Crude oil US$ per metric tonne	
	2011	2010	2011	2010	2011	2010
Average	8 820.9	7 532.1	32830.2	35284.2	105.3	78.7
High	9 867.6	9 147.3	40608.7	42284.2	115.5	88.9
Low	7 347.5	6 481.1	27469.3	28439.3	92.5	74.5

Source: Bank of Zambia

[2] Source: BOZ


Milk Tray
EXPANDER

OPERATIONAL PERFORMANCE

Management of Revenue Collection

Tax administration entails extensive interactions and transactions between the Authority, the taxpayers and other stakeholders. Through its commitment to the Taxpayer Charter, the Authority endeavours to deliver on its service commitments to the taxpayers with the timely processing of tax returns, customs declarations, refunds and other administrative obligations within the standards outlined in the Taxpayers' Charter.

During the year under review, the Authority undertook initiatives to increase revenue collections. In particular the VAT Taskforce was established to explore options for increasing revenue collection from the cash economy. In addition, a specialised Excise Tax Unit was established to improve management of excise tax. Furthermore, the Mining Tax Unit became fully operational with a view to maximising revenue from the mining sector.

In the review period, other initiatives included the development of the Strategic Plan for Small and Medium Taxpayers and increasing payment options for all taxes as well as the operationalization of the Call Centre to enhance taxpayer services.

Review of Revenue Performance

Structure of the revenue system in 2011

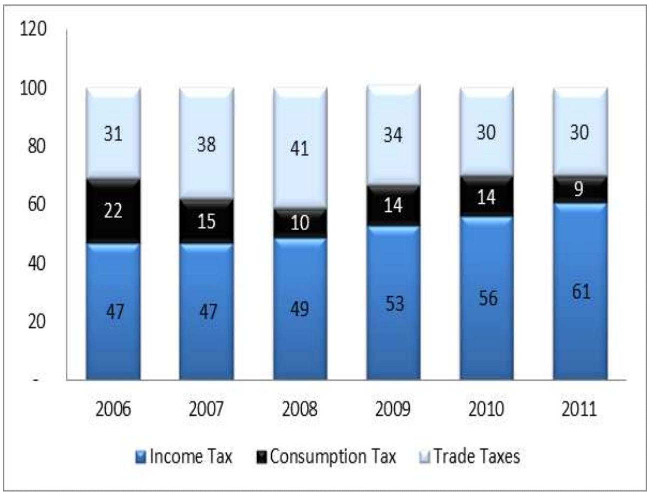
Income taxes continued to be the major source of tax revenue for Government and accounted for over 50.0 percent of the total tax revenue in the last three years (see Figure 8). A trend analysis of revenue contribution to total tax revenue provides useful insight for long term tax planning for Zambia. It reveals an interesting pattern that is heavily dependent on income taxes and trade taxes.

During the year under review, income tax contributed 61.0 percent of the tax revenue, followed by trade taxes at 30.4 percent while domestic goods and services taxes contributed a paltry 8.6 percent. Within the income tax category, PAYE accounted for 40.5 percent of income tax revenues.

In 2011, trade taxes were the second major source of tax revenue. Between 2011 and 2010, the share of trade taxes marginally increased from 29.7 percent to 30.4 percent. The main driver of trade taxes in 2011 was import VAT which accounted for 69.6 percent of the trade tax revenue.

Consumption taxes (excise duty and domestic VAT) were the least source of tax revenue. The share of domestic goods and services taxes decreased from 14.4 percent in 2010 to 8.6 percent in 2011. The pull factor in this tax category was excise duty, which in 2011, accounted for 68.3 percent down from 72.7 percent recorded in 2010.

Figure 8: Proportion of revenues from each tax group, 2006 to 2011



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 increased the domestic revenue base in the long run.

The Authority is alive to the threat posed by these trade protocols and has therefore repositioned itself to increase the contribution of income and consumption taxes.

Tax Revenue Collection in 2011

During the year, the Authority collected total revenue amounting to K18,928.0 billion against a Parliament target of K15,261.7 billion, thereby registering a surplus of K3,666.3 billion or 24.0 percent above target. This surplus is largely attributable to higher collections from income taxes especially under mining tax arrears. In particular, company tax, PAYE, mineral royalty, import VAT, customs duty and motor vehicle fees performed above their targets by K1,407.6 billion, K808.7 billion, K463.3 billion, K827.0 billion, K70.6 billion and K11.1 billion respectively (see Table 3).

The other reason for improved tax revenue performance was the general economic recovery from the global economic crisis. Compared to 2010, the 2011 tax revenue collection increased by K5,766.6 billion.

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

Income Taxes

Income tax collections have shown an upward surge over the last six years, as depicted in Figure 9.

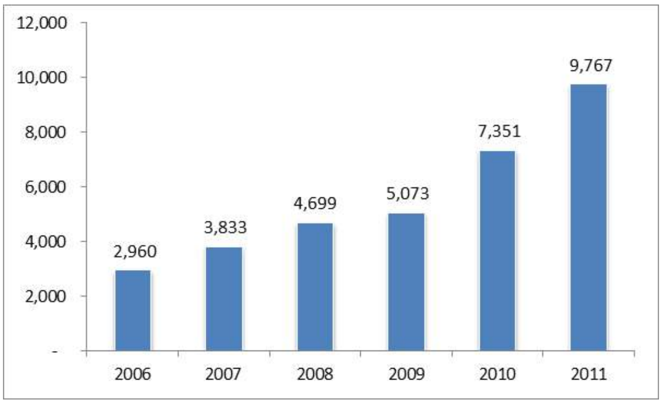
However, medical levy collection, during the year, at K18.4 billion was K3.6 billion or 16.4 percent below target. This performance was caused by decreased interest payments on savings in commercial banks.

During the year under review, income tax revenue, excluding mining tax arrears, was K9,767.6 billion against the Parliament target of K7,800.9 billion which was 25.2 percent above target.

Table 3: Tax revenue performance in 2011 (K billions)

Tax Types	Actual Outturn	Target	Variance of actual vs target	Percentage variance of target	Percentage of GDP
Total Revenue	18 928.0	15 261.7	3 666.3	24.0%	20.1%
1. Tax Revenue	18 889.0	15 230.2	3 658.8	24.0%	20.1%
A. Income taxes	9 766.9	7 800.9	1 966.0	25.2%	10.4%
1. Company tax	3 643.6	2 236.0	1 407.6	63.0%	3.9%
Non Mining Company Tax	1 169.7	1 337.1	(167.4)	(12.5%)	1.2%
Mining Company Tax	2 473.9	898.9	1 575.0	175.2%	2.6%
2. PAYE	4 519.3	3 710.6	808.7	21.8%	4.8%
3. Withholding taxes & others	736.0	894.7	(158.7)	(17.7%)	0.8%
4. Mineral royalty tax	868.0	404.7	463.3	114.5%	0.9%
B. Mining Tax Arrears	1 752.6	554.8	1 197.8	215.9%	1.9%
C. Excise taxes	1 662.5	1 756.0	(93.5)	(5.3%)	1.8%
1. Excise Duties	1 110.8	1 374.7	(263.9)	(19.2%)	1.2%
2. Rural Electrification Levy	30.1	47.5	(17.4)	(36.6%)	0.0%
3. Fuel Levy	504.5	313.8	190.7	60.8%	0.5%
4. Carbon Tax	17.1	20.0	(2.9)	(14.5%)	0.0%
D. VAT on domestic goods	(32.8)	828.5	(861.3)	(104.0%)	0.0%
E. Trade taxes	5 739.7	4 844.8	894.9	18.5%	6.1%
1. VAT on imports	3 997.3	3 170.3	827.0	26.1%	4.3%
2. Customs duty	1 737.8	1 667.2	70.6	4.2%	1.8%
3. Export duties	4.5	7.3	(2.8)	(38.4%)	0.0%
Export Duty on Scrap metals	2.6	1.9	0.7	36.8%	0.0%
Export Duty on Cotton seed	-	0.3			0.0%
Export Duty on Copper Concentrate	1.9	5.1	(3.1)	(60.8%)	0.0%
2.Non Tax revenue			-		0.0%
Medical levy	18.4	22.0	(3.6)	(16.4%)	0.0%
Motor Vehicle Fees	20.6	9.5	11.1	116.8%	0.0%

Figure 9: Trend in income tax collections, 2006 to 2011 (K billions)



Of this amount, K3,643.6 billion was company tax (37.3 percent), K4,519.3 billion was PAYE (46.3 percent), K736.0 billion was withholding tax (7.5 percent) and K863.0 billion was mineral royalty (8.9 percent).

The favourable performance of company tax was attributed to increased payments from the mining sector, increase in jobs and increased compliance management activities, such as increased audits and debt collection. 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 the other hand, the favourable performance of mineral royalty was attributed to favourable copper 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 dividend payments.

Taxes on Domestic Goods and Services

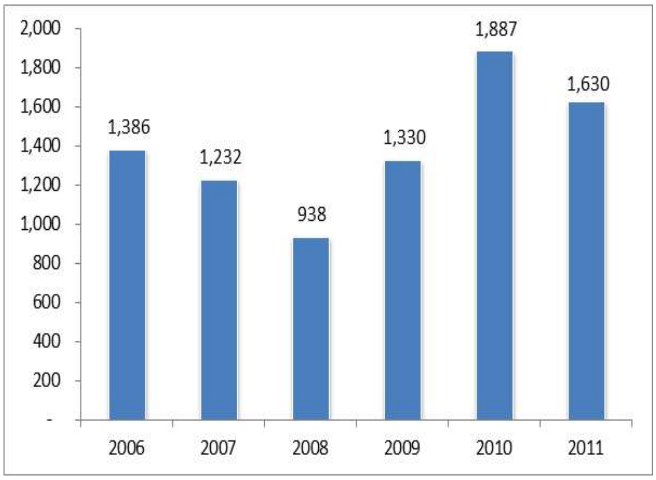
Taxes on domestic goods and services comprise excise duty and domestic VAT. The performance of these two taxes over the period 2006 to 2011 is as depicted in figure 10. Over this period the performance of the two taxes has averaged K1,400 billion. In the last two years, the performance has surpassed this average reaching a peak of K1,887 billion in 2010. However, in 2011 there was a decline in performance to K1,629.7 billion. This performance was below target by K966.3 billion or 37.0 percent. Within this category, excise duty contributed K1,662.5 billion, but was below target by K93.5 billion or 5.3 percent while domestic VAT recorded a negative collection of K32.8 and was K861.3 billion or 104 percent below target.

The underperformance of excise duty was largely attributed to compliance challenges. The poor performance was exacerbated by revenue loss resulting from various concessions as well as the accumulation of debt by some companies in the energy sector.

In the same vein, the under-performance of domestic VAT is attributed to low compliance among taxpayers.

Analysis of domestic VAT reveals that this tax type has consistently been underperforming and thus inhibiting the performance of consumption taxes.

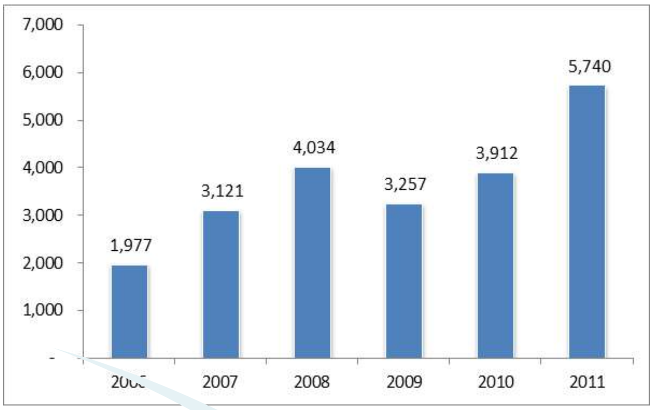
Figure10: Trend in domestic goods and services collections, 2006 to 2011 (K billions)



International Trade Taxes

Trade tax collections over the years have shown a steady increase despite the many trade protocols that the country has assented to. During the year under review, a total of K5,739.5 billion was collected from trade taxes and was above target by K894.9 billion or 18.5 percent (see Figure 11).

Figure 11: International trade taxes collections, 2006 to 2011 (K billions)



Most of the revenue collected from trade taxes was from import VAT, which contributed K3,997.3 billion or 69.6 percent. Import duties contributed K1,737.8 billion or 30.3 percent while export duties contributed K2.0 billion or 0.1 percent.

The positive performance of import VAT was largely driven by an increase in the value for duty purposes on taxable transactions. In addition, the collection of outstanding taxes also contributed to the positive performance.

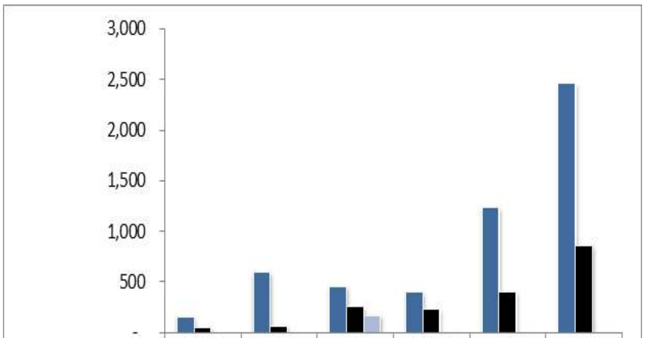
On the other hand, the underperformance of customs duty was mainly on account of increased importation of goods on concessions due to the various trade protocols that the country has signed. The performance of export duty was undermined by reduced export of copper ores and concentrates and the ban on the export of all types of scrap metal.

Performance of Mining Sector Taxes

Tax revenue from the mining sector has over the last few years shown an upward trend largely on account of increased production coupled with favourable metal prices. This trend represents a growing share of total mining tax revenue to total tax revenues from 12.6 percent in 2010 to 17.7 percent in 2011. Of the taxes paid by mining companies, company income tax contributed the largest amount at K2,473.9 billion followed by mineral royalty at K868.0 billion. Revenue from exports of copper concentrates was K2.0 billion (see Figure 12).

It is worth noting that in addition to the above taxes, the mining companies paid an additional K1, 752.6 billion in tax arrears broken down as follows: windfall tax (K444.6 billion), company income tax (K701.2 billion) and mineral royalty (K606.8 billion).

Figure 12: Tax revenues from the Mining Sector (K billions)



	2006	2007	2008	2009	2010	2011
Company Tax	160	603	464	401	1,245	2,474
Mineral Royalty	59	68	259	235	412	868
Export Duty			178	15	2	2

Contribution of Tax Types to Total Revenue and GDP

The ratio of tax revenue to GDP increased from 16.9 percent in 2010 to 20.1 percent in 2011. In particular, the ratio for income taxes increased from 9.7 percent in 2010 to 12.3 percent in 2011, while taxes on domestic goods and services decreased from 2.5 percent to 1.8 percent. Notably, the ratio for trade taxes increased from 5.2 percent to 6.1 percent (See Table 4).

Table 4: Tax revenue contribution as share of GDP, 2011 and 2010

Tax Type	Percentage of GDP in 2011	Percentage of GDP in 2010
Income Tax	10.4	9.7
Company Tax	3.9	3.2
Pay As You Earn (PAYE)	4.8	5.9
Withholding Tax	0.8	0.8
Mineral Royalty	0.9	0.5
Mining Tax Arrears	1.9	-
Domestic Goods & Services	1.8	2.5
Excise Duty	1.8	1.8
Domestic Value-Added Tax (VAT)	(0.03)	0.7
Trade Taxes	6.1	5.2
Import VAT	4.3	3.5
Import Duty	1.8	1.7
Export Duty	0.005	0.01
Medical Levy	0.02	0.03
Total GDP	**93,963**	**77,679**
Revenue as % of GDP	**20.1**	**16.9**

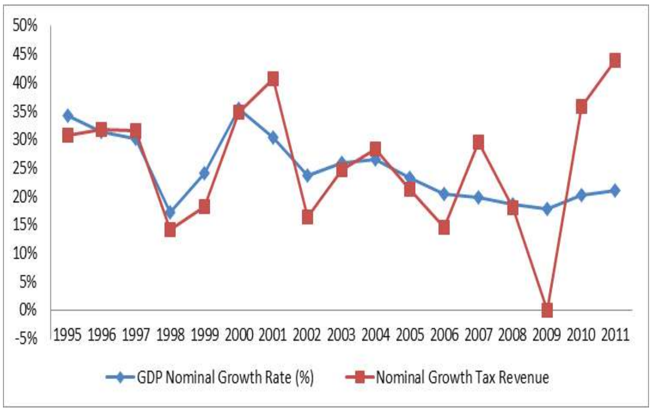
It is worth mentioning that the revenue to GDP ratio includes mining tax arrears. When the mining tax arrears are factored out, the revenue to GDP ratio reduces to 18.2 percent.

Tax Collected Relative to Gross Domestic Product

The growth in tax collected relative to the nominal growth in GDP, as shown in figure 13, below shows a fairly consistent trend that the revenue system is responsive to the growth in GDP. In 2011 revenue growth was 43.8 percent compared to 21 percent growth in nominal GDP. In 2010 revenue growth was 35 percent compared to 20 percent growth in nominal GDP.

The decrease in norminal growth in tax revenue recorded in 2009 was on account of the global financial crisis that negatively affected the tax take.

Figure 13: Growth in Nominal GDP and Tax Revenue 1995-2011



Trend Analysis of Tax Collected

Figures 14 to 21 provide an overview of the performance of different tax revenue types from the inception of ZRA in 1995 to 2011. The sustained increase in revenue collection reflects the effectiveness of our collection strategies and administrative systems

Figure 14: Company Income Tax (K' billion) 1995 - 2011

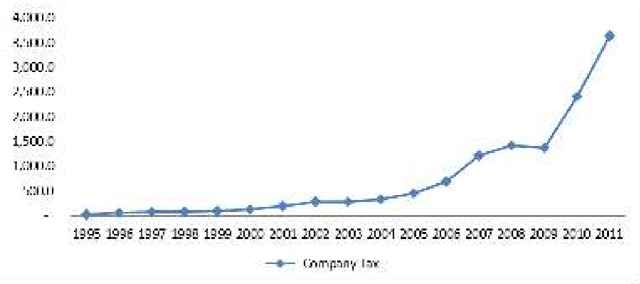


Figure 15: Pay As You Earn (K' billion) 1995 - 2011

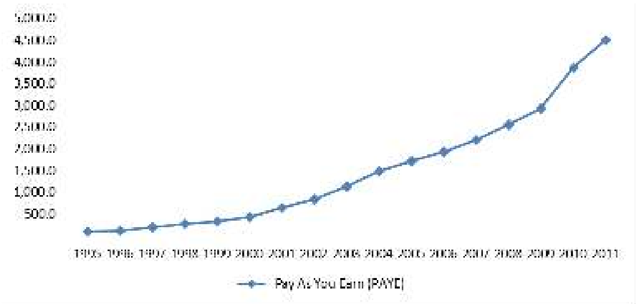


Figure 16: Withholding Tax (K' billion) 1995 - 2011

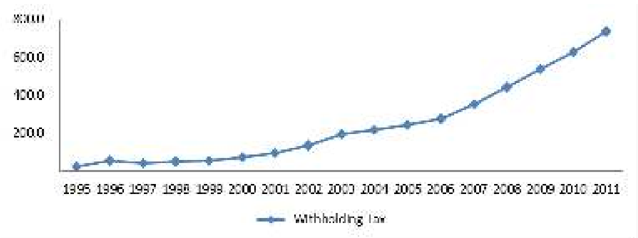


Figure 17: Value Added Tax (K' billion) 1995 - 2011

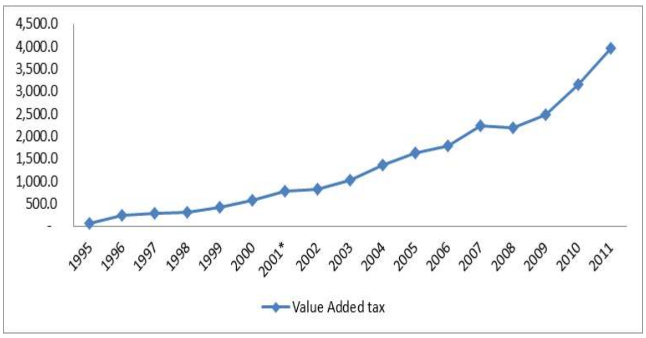


Figure 18: Mineral Royalty (K' billion) 1995 - 2011

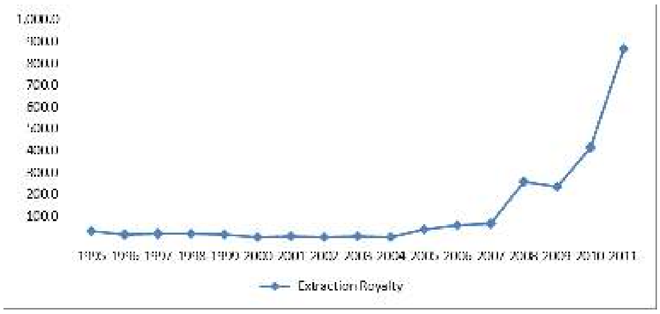


Figure 19: Excise Duties (K' billion) 1995 - 2011

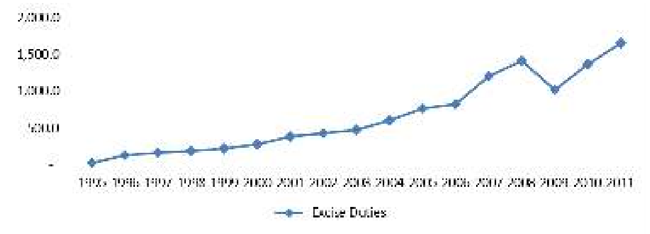


Figure 20: Import Tariffs (K' billion) 1995 - 2011

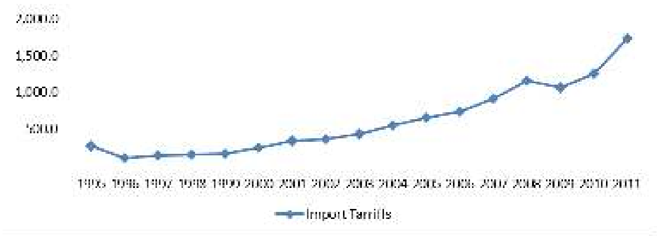
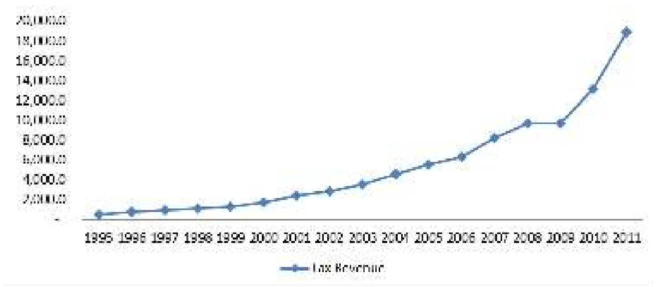


Figure 21: Tax Revenue (K' billion) 1995 - 2011



Debt Management - Domestic Taxes

During the period 2006 to 2011, the average debt stock was K3,806.92 billion (see Table 5). There was a steady rise in debt stock from 2006, reaching a peak of K5,471 billion in 2008. Between 2010 and 2011, the domestic taxes debt stock increased by 40.3 percent from K3, 456 billion in December 2010 to K4,849.5 billion at the end of 2011 compared to an increase of only 8.2 percent over the period of 2009 to 2010. Major increases in debt came from PAYE, mineral royalty and company income tax. Of the K4,849.5 debt stock in 2011, 42.2 percent was domestic VAT, 36.8 percent was PAYE, and 19.6

percent was company tax. The remaining 1.3 percent debt was from self-employed individuals and mineral royalty.

Table 5: Trend in domestic debt accumulation, 2006 to 2011 (K' billions)

Tax Type	2011	2010	2009	2008	2007	2006
Company Tax	949.4	717	1,182	2,366	1,271	1,265
Back Duty		17	8	8	9	214
Self Employed	11.1	123	16	86	82	83
PAYE	1,786.1	490.7	819	1,712	815	318
Domestic VAT	2,049.6	2,107	1,167	1,299	1,009	807
Mineral Royalty	53.3	0.7	-	-	-	-
Total	**4,849.5**	**3, 456**	**3,192**	**5,471**	**3,186**	**2,687**

Customs Services Operations

In the period under the review, the Authority engaged stakeholders with a view to improving service delivery and reducing the cost arising from delays in our clearance process. In this vein the Authority is committed to improving the clearance times and processing of entries.

In order to further improve service delivery, the Authority implemented an electronic payment system and a miscellaneous payment system. Other initiatives include the integrated cashiering and the automation of the red book issuance.

Customs Entries

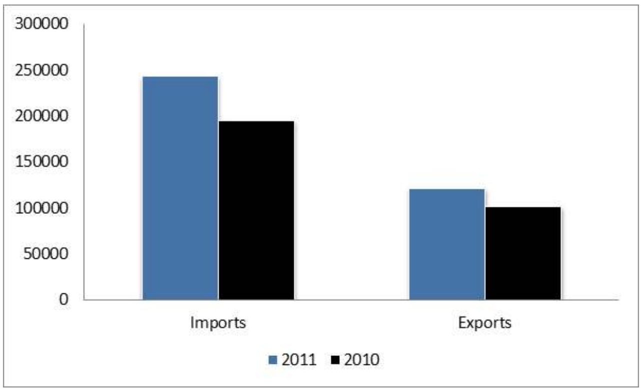
During the year under review, the number of import entries increased by 24.6 percent from 195, 560 in 2010 to 243, 634 in 2011 while the Value for Duty Purposes (VDP) increased by 52.0 percent over the same period. The number of export entries lodged also registered an increase of 19.9 percent from 101, 435 entries to 121, 575 entries while the VDP increased by 28.2 percent over the same period (see Table 6).

As depicted in figure 22, the high number of import and export entries put a lot of pressure on our trade facilitation role. The increase in the number of export entries was mainly attributed to increased exports from the mining sector

Table 6: Entries of Permanent Imports and Permanent Exports in 2011 and 2010

	2011	2010	Percentage Variance
Number of Import Entries Lodged	243,634	195,560	24.6%
Value of Import Entries Lodged (K billion)	37,549	24,707	52.0%
Number of Export Entries Lodged	121,575	101,435	19.9%
Value of Export Entries Lodged (K billion)	43,390	33,848	28.2%

Figure 22: Import and Export Entries 2010 - 2011



Duty Drawback Scheme

In order to make local manufacturing of exportable goods competitive the Authority has in place the duty drawback scheme which enables manufacturers to claim back duties paid on the inputs used in manufacturing process. The Authority also administers other customs refunds which are referred to as general refunds.

Table 7: Number, Value of Duty Drawback applications and General Refunds in 2011 and 2010

Duty Drawback Refunds	2011	2010
Number of duty drawback applications	442	361
Value of duty drawback applications (K' bn)	70.9	53.4
Value of processed duty drawback applications (K' bn)	70.9	53.4
Value of duty drawback payments (K' bn)	65.1	47.6
General Refunds	**2011**	**2010**
Number of General refunds claims	422	348
Value of General refund claims (K' bn)	29.4	9.2
Value of processed General refund claims (K' bn)	29.4	9.2
Value of General refund payments (K' bn)	29.4	9.2

In 2011, the number of duty drawback applications went up by 22.4 percent from the previous year while the value of claims increased by 32.8 percent over the same period.

On the other hand, the number of general refund claims increased by 21.3 percent, while the value of these refund claims reduced by 52.2 percent. Meanwhile, the value of the general refund payments increased significantly by 219.6 percent between 2011 and 2010 (see Table 7)

Customs Declarations

The registration to assessment conversion ratio indicates the volume of declared registrations that reach the assessment stage of the revenue collection process.

In the review period, 98.5 percent of the total transactions were assessed compared to 99.1 percent in 2010. This indicates that the level of efficiency declined by 0.75 percent mostly on account of the increase in the number of entries to 549,012 in 2011 from 454,736 in 2010 (see Table 8).

The other factor that contributed to the lower registration to assessment conversion ratio was the ICT system failures.

Table 8: Registration to Assessment Conversion Ratio for all transactions 2011 – 2010

Year	Assessed	Registered but not assessed	Total	Percentage assessed	Percentage registered but not assessed
2011	549,012	8,354	557,366	98.5	1.5
2010	448,143	3,878	452,021	99.1	0.9

Processing Efficiency

Processing efficiency as measured by the actual revenue collected to potential revenue was recorded at 97.8 percent in 2011 compared to 94.7 percent in 2010. Specifically, the potential revenue in the period under review amounted to K7,281.6 billion of which K7,122.6 billion was collected. A further K138.1 billion or 1.9 percent was assessed but not collected while K21.0 billion or 0.3 percent was not assessed and therefore no collections were made.

Table 9: Processing efficiency in tax yield from all taxable transactions in 2011 and 2010

Year	U-assessed taxes	Registered but not assessed	Registered, assessed and paid	Total collectable amount	Percentage un-assessed	Percentage unpaid	Percentage receipted
2011	21	138	7,123	7,282	0.3	1.9	97.8
2010	18	261	5,004	5,283	0.3	4.9	94.7

Risk Profiling Analysis

During the period under review, the Authority in the period under review continued to apply risk management techniques in the processing of imports and exports to select entry declarations for different levels of scrutiny to allow for cost effective and efficient utilization of resources.

Using these techniques, 38.5 percent of the transactions were channeled to the green lane thus not subjected to any scrutiny, while 9.9 percent were channeled to the blue lane requiring post clearance audit. Meanwhile 31.4 percent were channeled to the yellow lane requiring documentary check while the remaining 20.2 percent were subjected to physical inspection under the red lane.

An analysis of the VDP by lane for the same period indicates that the highest VDP by lane stood at K74,088.6 billion or 50.3 percent and was processed under the green lane while 31.9 percent amounting to K46,971.1 billion was processed under the yellow lane.

On the other hand, tax yield by lane for the same period indicates that the highest yield was on account of transactions channeled to the yellow lane which accounted for 40.8 percent or K2,909.19 billion of the total trade tax yield. This was followed by those channeled to the green lane which accounted for 31.9 percent or K2,269.0 billion (see Tables 10 and 11).

Table 10: 2011 Lane Analysis with VDP

	Count				Value for Duty Purposes (K'bn)				
Lane	Green	Blue	Yellow	Red	Green	Blue	Yellow	Red	Total
Total	208,257	53,426	169,930	109,064	74,089	10,380	46,971	15,881	147,320
Percentage	38.5	9.9	31.4	20.2	50.3	7.1	31.9	10.8	100.0

Table 11: 2011 Lane Analysis Tax Yield for Assessed, Receipted Transactions

	Count				Tax Yield (K'bn)				
Lane	Green	Blue	Yellow	Red	Green	Blue	Yellow	Red	Total
Total	208,257	53,426	169,930	109,064	2,269	749	2,909	1,196	7,123
Percentage	38.5%	9.9%	31.4%	20.2%	31.9 %	10.5%	40.8%	16.8%	100.0%

Domestic Tax Division Operations

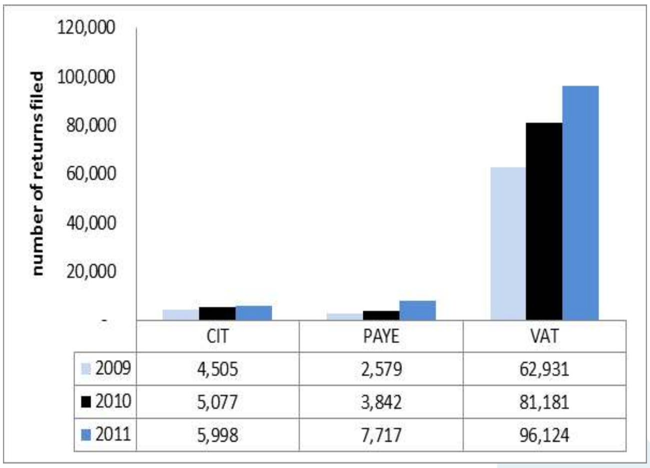
Return filing and processing, debt management and tax audits are integral in the administration of domestic taxes.

Return Filing

Return filing is an important component of the administration of domestic taxes. The self-assessment scheme administered by the Authority encourages the taxpayers to submit their tax returns voluntarily as and when they become due.

During the year under review, the Authority received 109,839 tax returns compared to 90,100 returns in 2010 representing an increase of 22.0 percent. Compared to 2010, there was an increase in the number of tax returns filed across all tax types (see Figure 23).

Figure 23: Number of tax returns filed between 2011 and 2010



Income Tax Return Statistics

Table 12 summarizes the performance of income tax in terms of number and value of returns including refunds.

There was an increase in the number of income tax returns submitted in 2011 compared to 2010, from 21,020 to 27,773. Similarly, the value of the income tax returns submitted over the same period also increased by 31.2 percent.

Table 12: Income Tax Return Statistics

	2011	2010
Number of returns submitted		
Company tax	5 998	5 077
Employed Individuals	48	80
Self-employed individuals	1 486	1 233
PAYE for individuals	7 717	3 842
Withholding tax	8 238	6 537
Property Transfer Tax	4 228	4 243
Mineral Royalty	58	8
Value of returns submitted (K' billion)		
Company tax	1 493.1	2 979.9
Employed Individuals	0.1	0.2
Self-employed individuals	31.3	23.4
PAYE for individuals	2517.1	1 510.7
Withholding tax	314.3	146.1
Property Transfer Tax	97.1	35.0
Mineral Royalty	392.7	3.9
Number of refund applications		
PAYE for individuals	11 963	2 242
Value of refunds paid (K' billion)		
PAYE for individuals	43.7	34.8

VAT Return Statistics

Table 13 summarizes the performance of VAT in terms of number and value of returns including refunds.

Table 13: VAT Return Statistics

	2011	2010
Number of returns submitted		
Payment returns	57 362	50 244
Nil returns	30 594	23 130
Repayment (claims) returns	8 168	7 807
Total	**96 124**	**81 181**
Value of returns submitted (K' billion)		
Payment returns	3 880.7	3 253.9
Nil returns	Nil	Nil
Repayment (claims) returns	(3 483.5)	(2 746.4)
Number of Refund Applications		
Number of Refund Applications	8 168	7 807
Number of Refunds Processed	8 051	6 632
Value of Refunds Paid (K' billion)	(3 730.0)	(3 102.2)

There was an increase in the number of VAT returns submitted in 2011 compared to 2010, from 81,181 to 96, 124. The value of payment returns in 2011 increased to K3, 880.7 billion from K3,253.9 billion in 2010. On the other hand the value of VAT refunds increased from K 3,102.2 billion in 2010 to K3,730.0 billion in 2011. For VAT refunds, 8 051 refunds were processed out of 8,168 applications, representing a processing efficiency of 98.6 percent compared to 2010 when 6 632 refunds were processed out of 7,807 applications, representing a processing efficiency of 84.9 percent.

Domestic Tax Audit Performance

Tax audit is one of the key enforcement tools the Authority uses in ensuring that there is compliance with the tax law provisions of the country. An effective tax audit system is cardinal in improving voluntary compliance and consequently revenue collection. During the year under review the number of audits conducted increased to 10,360 from 6,239 in 2010. This represents an increase of 66.1 percent over the review period.

From these audits, a total of K1,957.6 billion was assessed in taxes compared to K743 billion in 2010, an increase of approximately 163 percent (see Table 14). The increase in the value of tax assessed is a result of the large number of audits undertaken in the year under review. Out of the total tax assessed, a total of K597.7 billion was collected while the rest was deferred. In addition, the Authority charged penalties amounting to K370.3 billion in the same period for non-compliance with tax regulations.

Of these audits, 9.9 percent came from the Large Taxpayer Office and accounted for approximately 90 percent of total tax assessed in 2011. The directorate of Small and Medium Taxpayers accounted for 90.1 percent of tax audits accounting for approximately 10 percent of total tax assessed. This trend highlights the issue of cost effectiveness associated with taxation of small taxpayers.

Deferred tax arises from tax audits. For instance, deferred tax on company tax is additional tax assessed on loss making companies. The tax is deferred in the sense that it is not collectible immediately as the company still remains in a loss situation even after the audit adjustment. For VAT, deferred tax on VAT is additional tax arising from credibility checks on VAT refunds claims i.e. the reduction in the VAT refunds.

Table 14: Number of audits and tax collected in 2011 (K'billion)

		Large Tax Office			
Tax of Audit	**Number of audits**	**Tax collected (K)**	**Deferred (K)**	**Total**	**Penalties**
Income tax	326	285.2	1295.7	1581.0	311.0
PAYE	113	17.8	0.0	17.8	5.3
VAT	564	106.8	4.0	110.8	20.9
Integrated	23	43.4	7.5	50.9	15.0
Sub Total	**1026**	**453.2**	**1307.2**	**1760.5**	**352.2**
		Medium Tax Office			
Tax of Audit	**Number of audits**	**Tax collected (K)**	**Deferred (K)**	**Total**	**Penalties**
Income tax	2520	67.9	23.9	91.8	3.6
PAYE	363	19.3	0.5	19.8	5.3
VAT	3495	30.3	28.1	58.4	2.7
Integrated	168	21.3	0.1	21.4	6.5
Sub Total	**6546**	**138.8**	**52.6**	**191.4**	**18.1**
		Small Tax Office			
Tax of Audit	**Number of audits**	**Tax collected (K)**	**Deferred (K)**	**Total**	**Penalties**
Income tax	2704	5.1		5.1	0.0
PAYE	84	0.6		0.6	0.0
VAT	0	0.0		0.0	0.0
Integrated	0	0.0		0.0	0.0
Sub Total	**2788**	**5.7**		**5.7**	**0.0**
Grand Total	**10360**	**597.7**	**1359.8**	**1957.6**	**370.3**

Compliance and Enforcement Initiatives

COMPLIANCE INITIATIVES THAT SUPPORT REVENUE COLLECTION

Compliance

The year under review saw the introduction of key programs aimed at improving tax compliance and continuation of existing strategies. Some of the compliance initiatives undertaken during the year included:

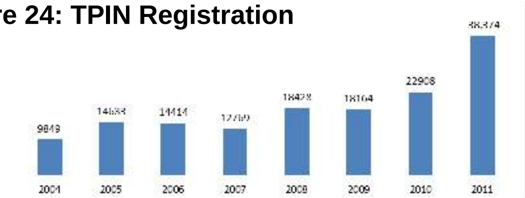
- partnering with key stakeholders such as local councils, RTSA and business associations to improve compliance among the SMEs and in general the informal sector.
- implementation of modernisation project which saw the re-alignment of tax administration from the tax type focus to taxpayer type focus.
- collaboration with donors in the area of tax administration that included the Kingdom of Norway, ICF, GIZ and the European Union through the PEMFA project; and
- implementation of the Risk Management and Intelligence Project.

Tax Registrations

During the year under review, the Authority continued with its tax registration activity. In this regard, a total of 38, 374 Taxpayer Identification Numbers (TPIN) were issued during the year compared to a total of 22,908 issued in 2010 (see Figure 24). The increase in TPINs recorded in 2011 is on account of making the decision to make it mandatory for all importers to use TPINs when declaring their imports.

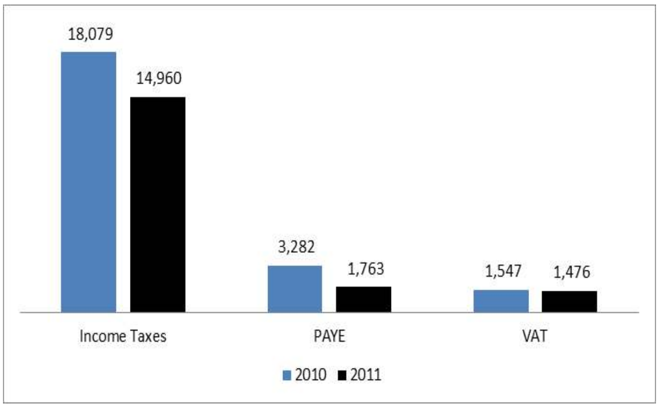
The total TPIN register in 2011 stood at 194,783 out of which 193,915 were active. Active TPINs refers to TPINs that have active tax accounts as well as those issued to businesses and individuals to facilitate one-off transactions such as clearance of motor vehicles and sale of property as it is now a requirement that whoever deals with the Authority must have a TPIN. On the other hand 478 TPINs were de-registed as at the end of 2011. Deregistration of TPINs arises from requests for deregistration from the taxpayers based on evidence of deregistration at Patents and Companies Registration Agency (PACRA) or dissolution of partnerships. During the same period 390 TPINs were pending deregistration. TPINs pending deregistration are those TPINs earmarked for deregistration but before deregistration is effected certain administrative requirements are satisfied such as clearance of any outstanding tax liability that may be associated with that particular TPIN.

Figure 24: TPIN Registration



The Authority also registered taxpayers in tax types during the year under review. A total of 14,960 taxpayers were registered for various income taxes compared to 18,087 registered in 2010 while 1,763 taxpayers where registered for PAYE compared to 3,282 in 2010. Meanwhile, 1,476 taxpayers were registered for VAT compared to 1,547 registered in 2010 (see Figure 25).

Figure 25: Registrations by Tax Type in 2011 and 2010



Taxpayer Education and Advisory Services

Taxpayer education and advisory services are now an important component of the Authority's overall tax compliance strategy. In an effort to enhance interaction with taxpayers, the Authority, in 2011, employed important innovations to improve taxpayer services. This included holding several consultative meetings with taxpayers, both small and large, at provincial and district levels.

On average, the Authority interacted with taxpayers at least once in each quarter. The Authority also participated fully in all the provincial and national trade and agricultural shows where taxpayer education and registration were undertaken. In addition, the Authority used both the print and electronic media in providing useful tax information to taxpayers. Further, the Authority ran educational programmes on both national and community radio stations. For example, the weekly print media article called “Tax Chat” proved useful as the Authority received positive feedback from taxpayers.

Another facility that was highly utilized during the year was the telephone based advisory service where taxpayers seek clarification and guidance on tax matters. Through the Customer Service Centres, ZRA established customer service help lines and a Call Centre, which were effective in increasing the efficiency of communication with taxpayers. The ZRA Website was also enhanced in 2011 and was useful to visitors who were able to download essential documents on tax information. Table 15 shows the number of outreach programmes that were conducted in 2011.

The key topics that were covered in the "Tax Chat" articles, which generated a lot of feedback, were the following:

- definition of tax points;
- treatment of withholding tax;
- valuation of goods at importation;
- submission of tax returns;
- 2011 budget changes and analysis;
- turnover tax; and
- bad debt relief.

Table 15: Taxpayer Outreach Programmes

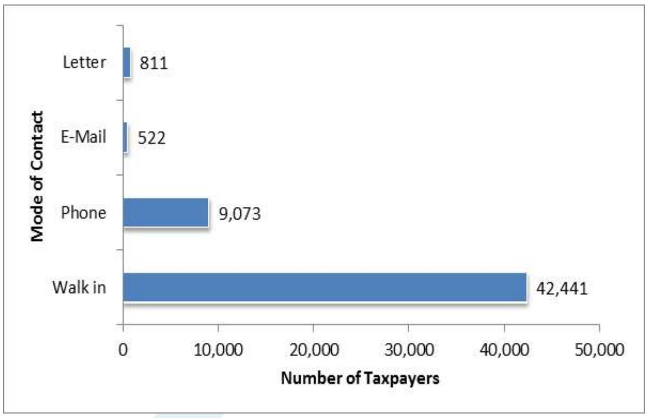
Outreach Activity	Number conducted
Tax chats in the print media.	47
Tax presentations to stakeholders	21
Tax clinics	3
Radio programmes	6
Door to door campaigns	58

Under tax presentations, tax clinics, radio and door-to-door campaigns, the key topics that stakeholders frequently requested for were the following:

- taxation of benefits;
- general tax information for entrepreneurs and marketeers;
- taxation of cross border traders and marketeers; and
- One Stop Shop tax facility.

Taxpayer contact with the Advice Centre for the purpose of seeking clarifications on tax matters is summarized in figure 26. A total of 52,847 taxpayers contacted the Authority in 2011, for the stated purpose. The modes of contact were: walk-ins, telephone, email and letters. As depicted in Figure 26, the majority of taxpayers walk to the Authority to seek services followed by those who use telephones and letters. The use of email was the least used mode of contact.

Figure 26: Taxpayer contact with Advice Centre in 2011



The use of the telephone as a means of coming into contact with our advisory services is gradually becoming popular due to the commissioning of the Call Centre. As the use of the Call Centre becomes popular, we expect to see a reduction in the number of queries in the front office.

Staff Capability

In ensuring that taxpayers comply with their tax obligations, it is vital that we have a competent workforce ready to meet the challenges of new legislation, increased complexity of business dealings and emerging risks. To ensure that staff involved in compliance work are well equipped to meet these challenges, we sharpened the skills and knowledge of our field officers by:

- training them in prosecution techniques;
- providing training in tax technical issues;
- undertaking study tours of other tax Authorities;
- Attended various workshops and conferences in order to share international best practices.

Serious Non-Compliance and Prosecution Outcomes

In the process of conducting tax administration serious cases of non-compliance arise and these require thorough investigation and where appropriate, prosecution is pursued.

Investigations

A total of 77 cases were investigated in the year under review compared to 78 cases in 2010. This represents a marginal reduction of 1.3 percent compared to the year 2010. The total revenue recovered on completed investigations was K36.3 billion compared to K86.4 billion in 2010 (See Table 16).

A total of 45 cases were investigated under the Customs Services Division resulting in revenue recovery of K16.3 billion compared to K2.5 billion in 2010. This massive increase in the value of investigated cases proves that our enforcement strategies are working to curb the problem of smuggling and tax evasion.

Table 16: Number and Value of cases investigated and completed in 2011 and 2010

	No of cases	Value of cases (K' million)			
Year		VAT	Customs and Excise	Income Tax	Total
2011	77	5,118	16,325	14,862	36,305
2010	78	27,684	2,150	56,536	86,370

Under Domestic Taxes Division a total of 32 cases were investigated and K19.9 billion was recovered compared to K84.2 billion in 2010. The prosecution and investigation functions continue to partner with other law enforcement agencies such as Zambia Police, the ACC and the DEC. 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 act as a deterrent and subsequently improve voluntary tax compliance.

Managing Public Confidence

MANAGING PUBLIC CONFIDENCE

During the period under review, the Authority through its Integrity Committee featured on four corporate radio programmes aired to disseminate information on ZRA integrity programmes to the members of the public.

Simplified and user-friendly information packs on services provided by the Authority were also developed. These were printed and disseminated in conjunction with Transparency International Zambia (TIZ). The aim of these information packs was to enhance transparency and accountability in service delivery.

The Authority and the Taxpayers

The relationship we seek with the community is one based on mutual trust and respect. We aim to be professional, responsive, fair, open and accountable including taking into account taxpayers' circumstances and compliance behaviour.

The key elements of the relationship we seek with the public are set out in the Taxpayers' Charter. The Charter helps taxpayers understand their rights under the law, the service and the standards they can expect from us, their tax obligations, and what they can do if they are not satisfied with our decisions, actions or service, or if they want to make a complaint.

As the Charter sets out what the public can expect in their dealings with us, it is important to link relevant aspects of our performance to the Charter principles.

Professional Excellence

The Authority has in place an Integrity Committee whose mandate is to reduce and prevent the prevalence of fraud and unethical behaviour amongst its staff. The Committee undertook the following activities:

- integrity awareness sessions for twenty-six (26) stations including head office ;
- employee ethics training sessions; and
- integrity awareness was included in induction programmes for new staff and other in-house training programmes.

Three managerial accountability workshops on Procurement, Investigations Units, and the Refund Process were conducted in conjunction with the Anti-Corruption Commission to identify corruption vulnerabilities and come up with remedial measures.

The Authority further participated in the commemoration of the UN International Anti-Corruption Day on the 9th December, 2011.

Minimising Compliance Costs

In an effort to boost revenue collection through increased voluntary compliance as well as improving formalization of the economy, the Zambia Revenue Authority has put in place several measures aimed at reducing the administrative barriers to tax compliance. The initiatives are also in line with Government efforts aimed improving the country's image in attracting Foreign Direct Investment (FDI) through reducing the administrative barriers to investments. Several studies have shown that the cost of compliance faced by taxpayers has a significant impact on the level of voluntary compliance as well as the level of business formalization. It is also argued by most taxpayers that cost of compliance is also exacerbated by a great deal of variation in tax administration as well as unpredictable inspections and audits.

In recognition, of the fact that high cost of compliance hinders voluntary compliance and invariably tax revenue collection, the Authority has embarked on tax administration reforms aimed at reducing the cost of compliance. These include; introduction of e-payment solutions, e-filing solutions, enhanced taxpayer education and improved service delivery.

In the year under review, the Authority carried out a survey of firms that belong to the Large Taxpayer Office (LTO) with the aim of estimating the cost of compliance and perception of ZRA service delivery. The study results indicate that the companies under LTO incur compliance costs which are approximately 1.2 percent of corporate profits or 3.3 percent of total tax revenue contributed by LTO firms. Furthermore, the study shows that 73.6 percent of firms perceive the Authority's level of overall service delivery as satisfactory. In addition, the survey identified key areas which firms felt the Authority should improve upon such as making the website more interactive and shortening the time tax audits take. The results of this survey were useful in identifying key areas were the Authority should improve in order to reduce the cost of compliance and improve service delivery to our large taxpayers. As a follow up to these findings management approved that a similar study be undertaken for Medium and Small Taxpayers in 2012.

Corporate Governance

CORPORATE GOVERNANCE

The Authority continued implementing modernisation reforms that promote good corporate governance with a view to maintaining the confidence and trust of all stakeholders.

Our Corporate Governance Approach

The organisational structure remained substantially stable with the Governing Board continuing its oversight function and the Commissioner General, supported by senior management, providing the necessary assurances regarding the day to day business of the Authority.

One significant change in the organisational structure in 2011 was the re-designation of the position of Commissioner – Corporate Services to Board Secretary with added responsibility of performing board secretarial duties, hitherto performed by the Legal Counsel. In addition, the Board approved the creation of the Directorate of Project Management to spearhead the implementation of internal and external projects.

Risk Management

The Authority considers the management of risk as a very important ingredient in governance. This is evident in the planning process which is principally based on the risk management approach. The risk management methodology design involves identifying, assessing and managing risks that could affect our ability to deliver on our mandate in a way that instils public confidence.

Since we operate in an environment where it is not practical to materially treat all risks, our approach is to ensure that we identify and take steps to properly manage the highest risks, as well as monitoring lesser risks to prevent them from escalating.

In 2011, the Authority made a deliberate decision to ensure risk management was implemented at the operational level throughout the organisation. In this regards, operational risk management guidelines were developed and distributed through divisional risk managers. This process is expected to be consolidated further in the remaining years of the current Corporate Plan.

Role of the ZRA Governing Board

The Authority has in place a corporate governance framework which is the means by which it ensures that it is being managed effectively, as a whole, in all aspects. In addition to statutory and policy requirements it is desirable for the Authority to set and maintain high standards of Corporate governance to promote stakeholder confidence in the integrity of the tax administration.

Good corporate governance enables us to maintain taxpayers' confidence by meeting their expectations of probity, accountability and openness.

In this regard, the Governing Board oversees the operations of the Authority.

The Governing Board elects its Chairperson from amongst its members. The Commissioner General, who is appointed by the President of the Republic of Zambia, is the Chief Executive Officer of the Authority.

The Governing Board carries out its oversight mandate through various committees and these are: Audit; Finance; Legal, Staff and Disciplinary; and Customs Clearing and Forwarding Licensing. To improve governance of the Authority and provide oversight, the Board has put in place the following Committees:

<u>Audit Committee</u>

This Committee mainly reviews the Authority's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established. The Committee also oversees the Authority's auditing, accounting and financial reporting processes.

<u>Finance Committee</u>

This Committee mainly considers the Financial Statements and Revenue Collection Reports of the Authority.

<u>Legal, Staff and Disciplinary Committee</u>

This Committee mainly considers legal matters, the recruitment of staff, the establishment, the review of policies; management appraisal systems and the revision of conditions of service of staff.

In addition to the Committees of the Board, the Authority has in place other internal oversight structures. These being: Internal Audit Division, Internal Affairs Unit, ZRAIC and the Risk Management and Intelligence Committee.

<u>Customs Clearing and Forwarding Licensing Committee</u>

The Committee has authority to consider and approve applications for licences made by Clearing and Forwarding Agents. The committee is therefore responsible for the issuance of new licences as well as renewal of these licences.

The Committee may invite members of management, or other experts to attend meetings and provide pertinent information as may be necessary.

Role of Corporate Plan and Divisional Action Plans

The Authority has in place a Corporate Plan that spells out the organisation's strategic direction. The Divisional Action Plans enable the Commissioner General to realise the strategic vision.

As a way of operationalizing the Corporate Plan, divisions develop their divisional action plans. The divisional action plans are very critical as they provide activities on the basis of which resource allocation is done. The performance of divisional action plans is monitored on both monthly and quarterly basis and reports submitted to the Governing Board.

In the year under review, the Authority fully implemented 17 percent of the planned actions while 83 percent were partially implemented. The majority of planned actions were not fully implemented on account of the delayed implementation of the Plan which only took effect in the second quarter of the year.

Divisional Functions

The Authority has two main operating divisions which are Customs Services Division and Domestic Taxes Division. In carrying out their mandates, the two divisions are supported by the following divisions: the Corporate Services Division; Human Resource Division; Finance Division; Research and Planning Division and the Internal Audit Division. Below is a summary of the divisions and their functions.

Customs Services Division

The division is headed by the Commissioner Customs Services who is responsible for the day to day running of the division and reports to the Commissioner General. The division is responsible for the administration of the Customs and Excise Act Chapter 322 of the Laws of Zambia. In addition, the division is also responsible for securing the supply chain, protection of society through control of imports of prohibited substances and the provision of trade statistics. The division also facilitates international trade. Taxes administered by the division are: customs duties; export duties; excise duties; Import VAT; motor vehicle fee and carbon emissions surtax.

Domestic Taxes Division

The division is headed by a Commissioner Domestic Taxes who is responsible for the day to day running of the division and reports to the Commissioner General. The division is responsible for the administration and collection of all domestic taxes apart from domestic excise duty that is collected by Customs Services Division. The division administers the Income Tax Act, Chapter 323 of the Laws of Zambia; the Value Added Tax Act, Chapter 331 of the Laws of Zambia; the Property Transfer Tax Act, Chapter 340 of the Laws of Zambia; Mineral Royalty Tax Act, Chapter 214 of the Laws of Zambia; and the Medical Levy Act, No. 6 of 2003.

There are three directorates under the division namely; Design and Monitoring (D & M), Large Taxpayer Office (LTO) and Small & Medium Taxpayer Office (SMTO). Each Directorate is headed by a Director.

Figure 27a: Implementation of the Corporate Plan

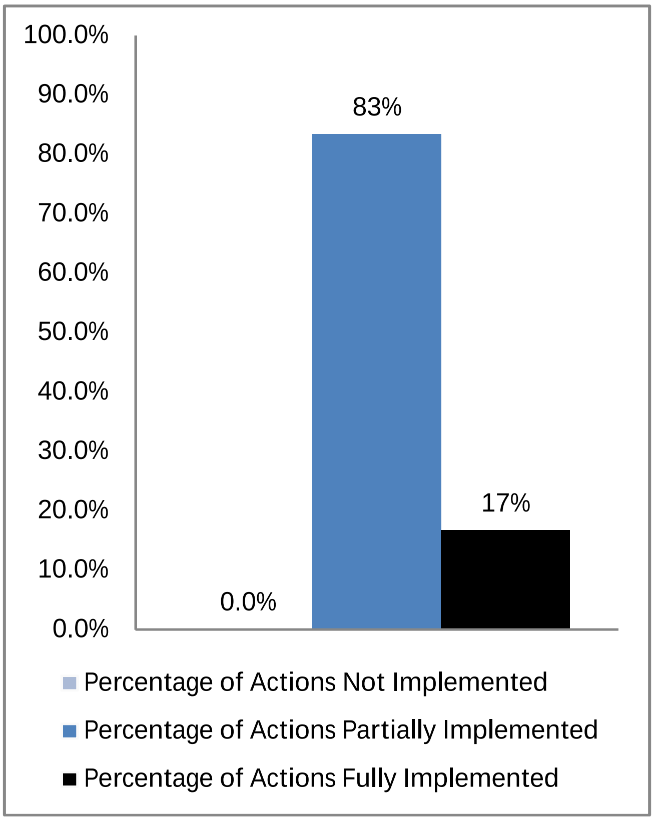
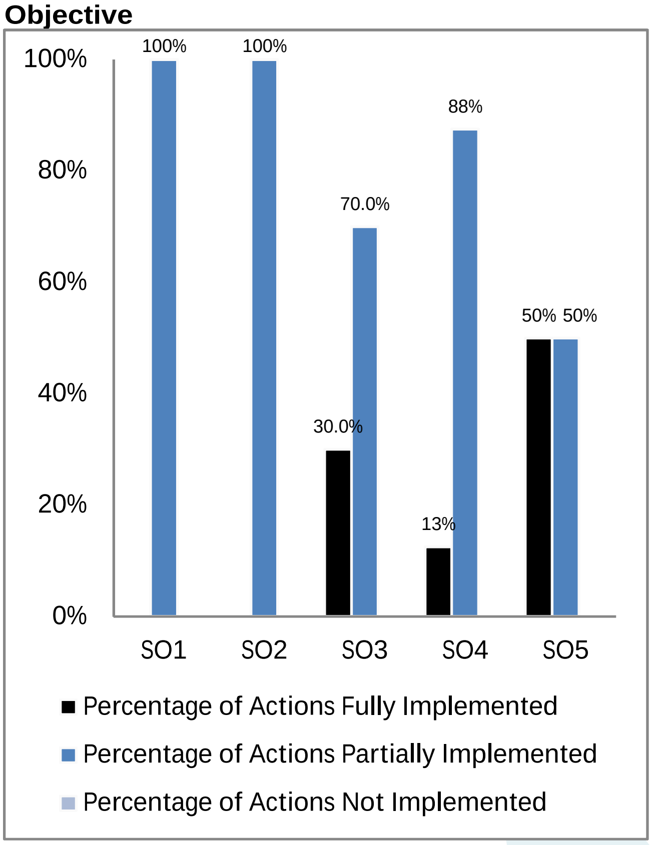


Figure 27b: Implementation by Strategic Objective



Taxpayer segmentation is according to the annual turnover ; Large Taxpayer Office (LTO) K20.0 billion kwacha and above per annum, Medium Taxpayer Office (MTO) – below K20.0 billion but above K200.0 million per annum and Small Taxpayer Office (STO) – K200.0 million kwacha and below. Despite this segmentation, all financial institutions and mining companies (including small and medium mines) regardless of the turnover are classified under LTO. A specialised mining unit under LTO is responsible for all mining tax affairs.

Corporate Services Division

The Board Secretary is the head of the Corporate Services Division that comprises the Administration Department, Legal Department and IT Department. The Board Secretary is also responsible for the day to day affairs of the Governing Board under the supervision of the Commissioner General. The division is responsible for among other things:

- procurement and supply;
- maintenance and development of new infrastructure;
- transport and security;
- general administration;
- information and communication technology; and
- legal affairs.

Human Resource Division

The Division is responsible for providing Human Resource services, and professional judgement and advice to ZRA geared towards the effective and efficient utilisation of the Authority's Human Resource as well as ensure retention of skilled staff. The division is also mandated to lead and manage employee relations and work place HIV and AIDS policy.

Research and Planning Division

The role of the Research and Planning Division is to provide research, policy development, taxpayer education, programme planning and corporate communications services. The division comprises three Units: Research and Policy, Corporate Planning, and Corporate Communication. Specifically the division is mandated to provide well-researched and analysed information, economic and statistical, on tax matters for use in management policy decisions.

It also coordinates all activities relating to the development and implementation of the Authority's Corporate Plan. Further, the division coordinates the implementation of the organisation-wide risk management process, and monitoring of the Taxpayers' Charter.

The division is also responsible for developing and maintaining a proactive public relations and communications strategy that promotes a positive image for the Authority as well as secures buy-in from all stakeholders towards the Authority's programmes through implementation of the Communication Policy and the Corporate Social Responsibility Policy.

In performing these functions, the division collaborates with other key stakeholders such as the Ministry of Finance and National Planning, Bank of Zambia, other Government Ministries and Agencies, international organisations such as the International Monetary Fund, the World Bank and others.

Finance Division

The Division is responsible for delivering outstanding business financial solutions consistently through seamlessly integrated financial and business systems.

The Division has two units namely Treasury and Accounting. The role of Treasury Unit is to facilitate the collection of government revenue while the Accounting Unit is responsible for the management of the funds received from the central government for the operations of the authority.

Internal Audit Division

The Internal Audit Division reviews and confirms 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. The Internal Audit division also coordinates all queries from the Office of the Auditor General.

EXTERNAL AND INTERNAL SCRUTINY

External Scrutiny

Parliamentary Committees

Parliament provides an oversight function over the operations of the Authority through various committees of the House.

In this regard, during the period under review, the Authority responded to a number of Parliamentary inquiries from different Parliamentary Committees. Amongst these were submissions to the Public Accounts Committee, the Committee on Economic and Labour Affairs, and attendance at the hearings of the Expanded Committee on Estimates. In addition the Expanded Committee on Estimates conducted a familiarisation tour of the Authority.

Auditor General

During the year, the Authority responded to all audit queries raised by to the Office of the Auditor General.

Litigation

Litigation forms an important part of our compliance and dispute resolution programme. In 2011, the Authority was involved in both civil and criminal litigation in the Supreme Court, the High Court, the Magistrates Court and the Revenue Appeals Tribunal.

Table 17: Tax Related Litigation in 2011 and 2010

Type of Court	2011	2010
Magistrates Court	1	1
High Court	33	28
Supreme Court	7	5
Revenue Appeals Tribunal	40	13
Industrial relations court	4	3
Total Cases	**85**	**50**

Civil Litigation

A total of 85 civil cases were before the courts of law in 2011 compared to 50 cases in 2010. The majority of the cases were in the Revenue Appeals Tribunal. The high number of cases before the courts could be an indication that taxpayers are aware of their right to seek redress on tax matters whenever they are aggrieved (see Table 17).

With regard to the nature of the cases before the court, 45 cases or 53 percent were customs and excise related while direct taxes, VAT and industrial related cases accounted for the remainder of the cases (see Table 18). A total of 12 cases were concluded during the year of which 9 cases were in favour of the Authority while 3 cases were in favour of taxpayers. The remaining cases are still before the courts.

Table 18: Cases in various Courts by category 2011

Tax Type	Number of cases	Number of Judgments in favour of ZRA	Number of Judgments in favour of Taxpayers
Customs and Excise	45	6	2
Direct Taxes	11	2	
VAT	12	1	1
Industrial Relations cases	13		
Others	4		
Total	**85**	**9**	**3**

Criminal Litigation

The total number of criminal cases prosecuted in 2011 reduced from to 15 from 94 in 2010. This represents a reduction of 84 percent over the period (see Table 19). However, the value of cases taken to court increased to K4.2 billion from K0.4 billion in 2010.

Table 19: Type of sentences by tax type and values in 2011

	Customs and Excise		Domestic Taxes		Total
Type of Sentence	**No**	**Value (K' million)**	**No**	**Value (K' million)**	
Tax only	3	69.0	7	3,922.4	3,991.4
Prison	0	0	0	0	
Fine	3	168.0	0	0	168
Acquittal	0	0	0	0	
Total	6	237.0	7	3,922.4	4,159.4
Cases in Court					
Year end – 2011	0		2		2
Total	**6**		**9**		**15**

Customs related prosecutions were 6 during the year, representing about 40.0 percent of all the cases prosecuted. All the cases were completed resulting in sentences of three tax settlement and three fines. The total revenue realised from customs prosecutions was K237.0 million in 2011 compared to K321.0 million in 2010. On the other hand, domestic taxes related prosecutions during the year were seven, with all resulting in tax settlement valued at K3.9 billion compared to K0.08 billion in 2010.

Internal Scrutiny

Internal Audit

During the year, the Internal Audit Division undertook 35 process audits and four special reviews and investigations compared to 34 and two (2) in 2010 respectively (see Table 20). Of the 35 process audits undertaken during the year, 13 or 37.1 percent were finalised and submitted to the Audit Committee of the Governing Board. All the four special reviews and investigations undertaken during the year were finalised while 22 process audits were being commented on and receiving attention from the various auditees.

Table 20: Audits and investigations undertaken in 2011 and 2010

Audits and Investigations	2011	2010
Number of process audits	35	34
Number of process audits finalised	13	10
Number of special reviews and investigations undertaken	4	2
Number of special reviews and investigations finalised	4	2

Fraud and Fraud Prevention

During the year, the Internal Affairs Unit, which is mandated to investigate all matters pertaining to corruption, fraud and other malpractices recorded 26 cases of misconduct compared to 19 in 2010 (see Table 21).

Table 21: Cases of fraud and misconduct by employees in 2011 and 2010

Type of offence	2011	2010
Fraud	3	4
Code of Conduct (breach of)	5	1
Theft	0	1
Bribery	12	4
Abetting smuggling	4	5
Other	2	4
Total cases investigated	**26**	**19**

During the year, the leading cases of misconduct were that of bribery and breach of the Code of Conduct which accounted for 46 percent and 19 percent respectively. All other forms of misconduct recorded a reduction compared to those recorded in 2010.

Of the total cases recorded in 2011, 12 cases resulted in dismissals while one case was before the courts of law. There were no cases referred to other law enforcement agencies while the unit received one case from the ACC for investigation.

Internal Integrity

The Integrity Committee continued receiving client feedback through its Secretariat. The modes used for submission were through: suggestion boxes placed at our various stations; letters and emails; and telephone (see Table 22).

Table 22: Number of Complaints and Comments Received by ZRAIC

Year	Complaints	Comments	Total
2010	179	54	233
2011	63	47	110

During the year under review, the number of comments and complaints reduced from 233 in 2010 to 110 in 2011 representing a reduction of 53 percent. This implies our efforts on reducing staff misconduct are working while our service delivery is improving.

Nature of Comments and type of Complaints for 2011

Of the 47 comments received in 2011, the majority were on information request which accounted for 21 cases or 45 percent followed by suggestions at 10 or 21 percent and queries at 9 or 19 percent. The rest were compliments which were 7 or 15 percent of the total comments received. (see Table 23)

Table 23: Nature of Comments Received

Compliments	7
Information	21
Queries	9
Suggestions	10
Total	**47**

In 2011, 63 complaints were received of which the majority of the cases related to staff inefficiency that amounted to 37 representing 59 percent followed by complaints related to professional misconduct representing 18 percent of the total complaints received.

Table 24: Type of Complaints Received

Corruption	1
Fraud	1
Inefficiency	37
Tax Evasion	9
Professional Misconduct	11
Others	4
Total	63

Complaints relating tax evasion were 9 representing 14 percent of the total cases. (see Table 24).

Managing Our Human Resources

MANAGING OUR HUMAN RESOURCES

Our Staff

During the year under review, our staff complement stood at 1,255 against the approved establishment of 1,380. This represented an increase of 3.4 percent staff complement for the period 2010 to 2011.This represents 91 percent of the approved establishment compared to 88 percent in 2010. The increment in the staff complement is explained by increases in the net staff complement of the Domestic Taxes Division, Research and Planning Division, Commissioner General's office, Corporate Services Division, Human Resources division, Finance division and Internal Audit Division (see Table 25).

Table 25: ZRA staff complement by Division / Unit as at end 2011 and 2010

	2011		2010	
Division / Unit	**Actual**	**Approved**	**Actual**	**Approved**
Commissioner General's Office	11	13	13	13
Research and Planning division	14	19	13	19
Domestic Taxes division	406	440	402	440
Customs Services division	447	494	451	494
Corporate Services division	280	311	244	311
Human Resource division	23	23	20	23
Finance division	58	63	56	63
Internal Audit division	15	16	14	16
ZRAIC Secretariat	1	1	1	1
Total	**1255**	**1380**	**1214**	**1380**

Table 26 shows the staff complement broken down by classification and gender in 2010 and 2011. The proportion of female staff during the year stood at 31.7 percent compared to 32.3 percent in 2010. Staff distribution according to the type of grades or classification remained relatively the same over the last two years. For example, in 2011, 37.5 percent of the staff was in the technical staff category, similar to the percentage in 2010. Likewise, those in the middle management category comprised 11.2 percent compared to 11.6 percent in 2010. Collectively, Support staff and senior management comprised 50.0 percent and 49.5 percent of the workforce in 2011 and 2010 respectively.

Table 26: ZRA employees by classification and gender in 2010 and 2011

	2011		2010	
Classification (Full time)	**Male**	**Female**	**Male**	**Female**
Senior Management ZRA00	1	0	1	0
Senior Management ZRA01	1	2	1	1
Senior Management ZRA02	8	3	8	3
Middle Management ZRA03 –04	114	27	114	27
Technical Staff ZRA05 – 06	324	147	317	141
Support Staff ZRA07 –10	410	218	81	220
Total	**858**	**397**	**822**	**392**

The Customs and Excise Division continued to be the most staffed followed by Domestic Taxes. Corporate Services Division constitutes the largest number of support staff. The least staffed were the Research and Planning Division, Office of the Commissioner General, ZRAIC and Human Resources.

Our Staff Strategy

In 2011, our people strategy focused on recognising and meeting the different needs of our staff. We endeavoured to create a workforce that is skilled and committed to meet the Authority's mandate. In addition, all the Human Resource manuals were reviewed to ensure that our strategies meet the challenges of a dynamic economic environment.

Workforce Design

In this regard, we have a resource and training manual in place which is a guide on how ZRA implements its training programmes. In addition, the training manual was reviewed 2011 to ensure that it meets the challenges of a dynamic environment.

Skilling and learning

The complexity and diversity of our work and the dynamic nature of the environment in which we operate influence our approach to and emphasis on workforce design.

To ensure that the authority achieved its mandate we made sure that there was continuous training for our staff in specialised skills. In this regard, we committed significant resources to capacity building. In the same vein the Authority allocated K2.2 billion towards training. This resulted in the successful implementation of the training programme with over 576 members of staff being trained compared to 376 in 2010. Table 27 outlines some of the training programmes delivered in 2011.

Table 27: Staff development in 2011

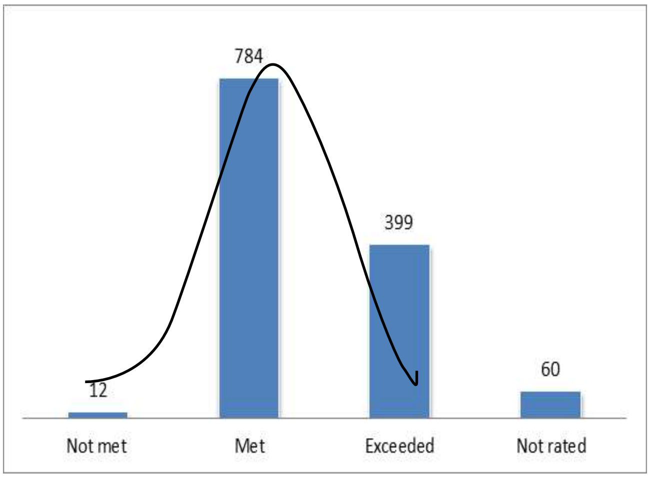
Type of Training	Number of staff trained
Tax Administration a Refund process system- post implementation review workshop	24
Customs Investigation Procedures Manual workshop	9
Role Profile Review workshop	20
Integrated Refund Processing System Training	22
High Performance Leadership Training	45
IP PBX Level 1 – Technical Training	5
Customs Service Training workshop(under the modernisations programme)	54
Fundamentals of Audit – Money Laundering: International and compliance Issues	6
Induction Training	90
Service Desk Installation Training	32
Audit Process workshop	12
The psychology of woman workshop	4
PAYE Training	26
Turnover Tax Training	21
SAP Basic Training	1
SAT Training	2
Productivity Improvement workshop	2
VAT training and tax inspectors course (Module One)	33
Scanner Training (Training of Trainers)	10
Income Tax Training	34
Customs Basic Course	20
Scanner Training	39
Tax Inspectors Course	17
Administration and Termination of Employment Contract workshop	2
Risk Management workshop	13
Warehouse Training	8
Excel Modelling Training	2
Refund Process workshop	10
Gender Audit workshop	1
Womenomics workshop	1
Customer Service Excellence	7
Inspirational Leadership workshop	4
Total no. of Employees Trained	**576**
Funds Allocated for 2011 (k billion)	**2.2**
Funds spent during the year (k billion)	**2.0**
Balance (k billion)	**0.2**

Performance Management and Development Process

In order to ensure that the Authority gets value for money from its employees, the Authority implements the Performance Management and Development Process (PMDP). The PMDP is a process through which the Authority manages its performance in line with its Corporate Plan as well as the Authority's mandate.

The PMDP is also used to assess the performance of staff in achieving the goals of the organisation. In the year under review, a total of 1,183 staff either 'met' or 'exceeded' their work targets for the year. A minimal number of 12 or one percent of those that were rated 'did not meet' their planned activities for the year. Meanwhile, 60 members of staff were not rated of which 33 were not rated on account of being new employees while 27 were not rated for other reasons (see Figure 27). This high level of staff performance was cardinal in ensuring that the authority exceeded its annual revenue target by 24 percent in 2011.

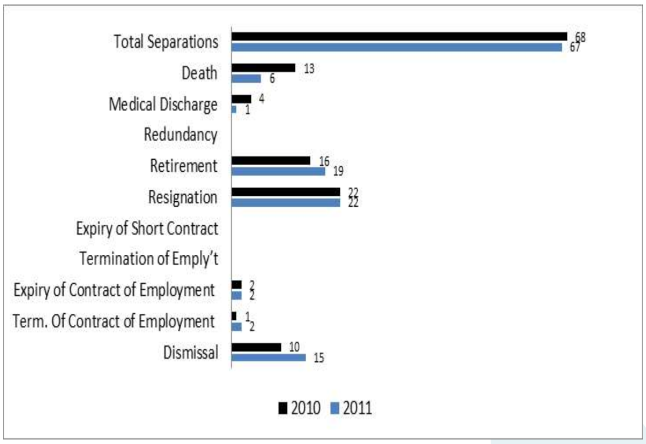
Figure 27: Performance Rating of staff - 2011



Separation

During the year under review, 67 members of staff separated with the Authority compared to 68 in 2010. Staff separations represented a staff turnover of 5.3 percent compared to 5.7 percent in 2010. Of those who separated 22 members of staff or 33.0 percent left through resignations, 19 people left on account of retirement, 15 employees were dismissed while six passed away (see Figure 28).

Figure 28: Staff turnover in 2011 and 2010



ZRA Approach to HIV/AIDS

The Authority attaches great importance to the health status of its employees and the families. As a result of this the authority mooted the HIV/AIDS workplace programme in 2000. The programme consist of two core areas namely prevention and treatment. Under the prevention programme the authority provides psycho social counselling, testing and sensitisation workshops for all staff. Further, HIV/AIDS information has been incorporated in our induction programs for new staff members.

The year under review saw the Authority undertake a number of prevention activities which included road shows in collaboration with Community HIV/AIDS Mobilisation Project. Specifically, road shows were held at Chirundu, Kasumbalesa and Mwami. The activities which targeted both our officers and the general public, involved Voluntary Counselling and Testing for HIV, malaria, blood pressure, and diabetes. In Lusaka activities were extended to include COMESA market and Inter-City Bus Terminus. This was aimed at improving our image amongst cross border traders and travellers as part of our corporate social responsibilities.

Furthermore, the Authority, in partnership with CHAMP, trained peer educators and counsellors for our in-house VCT programme which is available to our staff at all times. Under this partnership the Authority plans to train a further 5 peer educators and counsellors to be stationed at Chirundu, Victoria Falls and Head Office. The year under review also saw the signing of a Memorandum of Understanding (MoU) with the USAID together with 15 other organisations. Under this MoU, USAID has committed to donate equipment worth over US$30,000 to help with the outreach sensitisation programmes that the Authority will undertake.

Under the treatment programme, the Authority has implemented a voluntary Contributory Anti-Retro-therapy Scheme (CSARTs) which provides treatment for its members that require Anti-Retro Viral Therapy. Membership into the scheme is open to all members of staff regardless of their HIV status. During the year CSARTs had a total membership of 411 compared to 389 in 2010. This membership represented 32.7 percent of the total work force.

A total of 80 members of staff and their families were receiving treatment on CSART compared to 77 in 2010 representing an increase of 3.9 percent.

The Authority's efforts in the fight against HIV/AIDS were recognised by the Zambia Federation of Employers by scooping the First Prize as employer of the year in the HIV/AIDS workplace programme category award. This was the second time ZRA scooped this award having won it in 2009.

Information Technology and Physical Assets

INFORMATION TECHNOLOGY AND PHYSICAL ASSETS

Asset Management

During the year under review, the Authority disbursed K909.48 million or 96 percent of the total capital budget towards the refurbishment and rehabilitation of infrastructure and equipment at various stations (see Table 28).

Major works completed in 2011 included the erection of a perimeter wall fence around the Chelstone Training Centre, rehabilitation of staff houses in Kasama and the creation of an integrated cash office and Customer Service Centre at Nchanga House.

A total of K5.4 billion was spent on the acquisition of new assets compared to K6.8 billion in 2010. Out of the total amount spent on acquisition of new assets, K2.8 billion was spent on acquisition of office equipment and furniture. A further K2.0 billion was spent on purchase of 10 new pick up motor vehicles.

With respect to asset disposal, the Authority had a gain of K94.7 million.

Information and Communication Technology

Information and Communication Technology is important in a modern and complex tax administration system. The Authority has prioritized the computerisation of all its tax administration systems with the aim of reducing the cost of compliance as well as enhancing revenue collection. In this vein, the Authority procured a total of 71 new computers.

Furthermore, the Authority continued to upgrade its network infrastructure to improve connectivity among its stations. In this regard, the Authority upgraded the VSAT bandwith at Chipata station to improve its communication with other stations.

Table 28: The value of major projects undertaken in 2011 (Kwacha millions)

	Project name	Value	Amount paid	Amount outstanding	Status
1	Security boundary Wall and Palisade Fencing at Chelstone Training centre	359.94	324.56	35.38	Complete
2	Installation of 200KVA dedicated Transformer at Chelstone Training centre	66.00	66.00	nil	Complete
3	Fabrication and installation of Grille Doors and Burglar bars to Staff Houses (15No.) at Kariba	58.00	58.00	nil	Complete
4	Alterations to create Integrated Cash Office and Customer Service Centre at Nchanga House	340.82	340.82	nil	complete
5	Rehabilitation of Ten Staff Houses in Kasama	120	120	nil	Complete
	Total	**944.76**	**909.38**	**35.38**	

Financial Statements

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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 2011, 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 it determines 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 51 to 80 were approved by the Governing Board on 05/06/ 2012 and are signed on its behalf by:

.... Director

.... Director

KPMG Chartered Accountants
1st Floor Elunda 2
Addis Ababa Roundabout, Rhodespark
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Independent auditor's report to the Governing Board of Zambia Revenue Authority

We have audited the financial statements of Zambia Revenue Authority which comprise the statement of financial position at 31 December 2011, 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 51 to 80.

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 control 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 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 2011 and 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.

KPMG

KPMG Chartered Accountants
Lusaka, Zambia

Jason Kazilimani, Jr
Partner

Statement of financial position
as at 31 December 2011

	Note	2011 K'000	2010 K'000 Restated	2009 K'000 Restated
Assets				
Non-current assets				
Property, plant and equipment	*18*	**126,798,027**	133,807,472	138,517,951
Intangible assets	*19*	**920,720**	1,171,825	-
Employee loans and advances	*22*	**1,296,853**	1,561,754	1,626,627
Total non - current assets		**129,015,600**	136,541,051	140,144,578
Current assets				
Inventories	*21*	**2,668,204**	2,535,745	1,527,658
Employee loans and advances	*22*	**3,712,310**	3,349,811	1,609,456
Other assets	*23*	**6,192,721**	1,888,686	4,800,492
Cash and cash equivalents	*24*	**50,734,618**	16,588,990	16,886,103
Amount receivable from Government	*34*	**8,760,607**	10,479,371	-
Customs deposit bank accounts	*30*	**5,104,742**	1,973,087	5,339,939
Tax refunds bank accounts	*31*	**39,697,901**	61,542,156	25,743,810
Total current assets		**116,871,103**	98,357,846	55,907,458
Total assets		**245,886,703**	234,898,897	196,052,036
Capital fund, reserves and liabilities				
Capital fund and reserves				
Capital fund		**(81,280,565)**	(68,733,612)	(62,662,521)
Revaluation reserve		**49,477,856**	50,530,576	51,583,296
Total capital fund and reserves		**(31,802,709)**	(18,203,036)	(11,079,225)
Liabilities				
Non-current liabilities				
Employee related liabilities	*25*	**173,472,315**	157,349,598	139,312,068
Deferred income	*11*	**9,640,849**	11,420,698	15,402,057
Total non – current liabilities		**183,113,164**	168,770,296	154,714,125
Current liabilities				
Deferred income	*11*	**1,779,849**	1,779,849	1,779,849
Climate change grant	*12*	**3,153,778**	-	-
Trade payables	*26*	**6,126,324**	7,038,838	12,092,870
Other payables	*27*	**25,073,871**	11,997,707	7,460,668
Border examination fees	*28*	**13,639,783**	-	-
Customs deposit bank accounts	*30*	**5,104,742**	1,973,087	5,339,939
Tax refunds bank accounts	*31*	**39,697,901**	61,542,156	25,743,810
Total current liabilities		**94,576,248**	84,331,637	52,417,136
Total capital fund, reserves and liabilities		**245,886,703**	234,898,897	196,052,036

These financial statements were approved by the Governing Board on 5th June 2012 and were signed on its behalf by:

....

Director *Director*

The notes on pages 55 to 80 are an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2011

	Note	2011 K'000	2010 K'000 Restated
Revenue			
Government funding	*7*	**274,147,745**	245,109,671
Asycuda processing fees	*8*	**26,121,726**	21,764,490
Other income	*9*	**3,316,342**	4,165,922
Investment climate facility income	*10*	**1,327,889**	-
Amortisation of capital grant	*11*	**1,779,849**	1,779,849
Total operating income		**306,693,551**	272,819,932
Expenditure			
Personnel expenses	*13*	**(234,699,390)**	(193,977,140)
Administrative expenses	*14*	**(23,361,476)**	(27,507,025)
Operating expenses	*15*	**(51,082,739)**	(35,949,111)
Legal expenses		**(1,759,173)**	(13,509,827)
Depreciation and amortisation	*18,19*	**(10,430,476)**	(9,865,367)
Results from operating activities		**(14,639,703)**	(7,988,538)
Finance income		**1,124,701**	864,727
Finance costs		**(84,671)**	-
Net finance income	*16*	**1,040,030**	864,727
Deficit for the year		**(13,599,673)**	(7,123,811)
Other comprehensive income			
Amortisation of revaluation reserve		**1,052,720**	1,052,720
Total comprehensive loss for the year		**(12,546,953)**	(6,071,091)

The notes on pages 55 to 80 are an integral part of these financial statements.

Statement of changes in capital fund and reserves

for the year ended 31 December 2011

	Capital fund K'000	Revaluation reserve K'000	Capital reserve K'000	Total K'000
Balance at 1 January 2010 as originally stated	11,605,703	51,583,296	650,491	63,839,490
Prior year adjustments:				
- Write off of capital reserves (note 35)	650,491	-	(650,491)	-
- Correction of overstatement of deferred income (note 35)	2,201,510	-	-	2,201,510
- Correction of understatement of employee benefits (note 35)	(77,120,225)	-	-	(77,120,225)
Balance at 1 January 2010 as restated	(62,662,521)	51,583,296	-	(11,079,225)
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)	-	-
Total comprehensive income for the year	(6,071,091)	(1,052,720)	-	(7,123,811)
Balance at 31 December 2010	**(68,733,612)**	**50,530,576**	**-**	**(18,203,036)**
Balance at 1 January 2011	**(68,733,612)**	**50,530,576**	**-**	**(18,203,036)**
Total comprehensive income for the year				
- Deficit for the year	**(13,599,673)**	**-**	-	**(13,599,673)**
- Other comprehensive income	**1,052,720**	**(1,052,720)**	-	**-**
Total comprehensive income	**(12,546,953)**	**(1,052,720)**	-	**(13,599,673)**
Balance at 31 December 2011	**(81,280,565)**	**49,477,856**	**-**	**(31,802,709)**

Capital fund

The capital fund is the carried forward recognised income net of expenses of the Authority , plus the current period results. The funds ultimately belong to the Government of the Republic of Zambia.

Revaluation reserve

The revaluation reserve relates to the revaluation surplus on buil dings. The revaluation reserves are amortised to capital fund as the related assets are depreciated or disposed of.

Capital reserve

This reserve relates to the value of assets transferred t o Zambia Revenue Authorit y when the entity was created. The reserve was supposed to be amortised as the assets are amortised annually. (See note 1 and note 35 (a))

The notes on pages 55 to 80 are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2011

	Note	2011 K'000	2010 K'000
Cash flows from operating activities			
Deficit for the year		**(13,599,673)**	(7,123,811)
Adjustment for:			
- Amortisation of capital grant	*11*	**(1,779,849)**	(1,779,849)
- Depreciation and amortisation	*18,19*	**10,430,476**	9,865,367
- (Gain)/loss on sale of equipment		**(94,661)**	168,094
- Actuarial gains	*25*	**(6,728,356)**	-
- Net finance income	*16*	**(1,040,030)**	(864,727)
Operating cash flows before movement in working capital		**(12,812,093)**	265,074
Changes in inventories		**(132,459)**	(1,008,087)
Changes in employee loans and advances		**(97,598)**	(1,675,482)
Changes in amounts due from Government		**1,718,764**	(10,479,371)
Changes in other assets		**(4,304,035)**	2,911,806
Changes in trade payables		**912,517**	(5,054,032)
Changes in other payables		**13,076,164**	2,335,529
Changes in border examination fees		**13,639,783**	-
Changes in capital grant		**3,153,778**	-
Changes in employee related liabilities		**22,851,073**	18,037,530
Net cash generated from/(used in) operating activities		**38,005,894**	5,332,967
Cash flows from investing activities			
Interest received	*16*	**1,124,701**	864,727
Acquisition of property, plant and equipment	*18*	**(5,387,903)**	(5,425,023)
Acquisition of intangible assets	*19*	**-**	(1,255,527)
Proceeds from sale of equipment		**487,607**	185,743
Net cash (used in)/generated from investing activities		**(3,775,595)**	(5,630,080)
Net increase/(decrease) in cash and cash equivalents		**34,230,299**	(297,113)
Cash and cash equivalents at beginning of year		**16,588,990**	16,886,103
Effect of exchange rate fluctuations on cash held		**(84,671)**	-
Cash and cash equivalents at end of the year	*24*	**50,734,618**	16,588,990

The notes on pages 55 to 80 are an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2011

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), and in the manner required by the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia.

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.

2.2 Basis of measurement

The ?nancial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:
- employee loans and advances are measured at fair value on initial recognition and are subsequently measured at amortised cost using the effective interest method less impairment losses; and
- the liability for the defined benefit obligation is recognised as the present value of the defined obligation plus unrecognised actuarial gains, less unrecognised past service costs and unrecognised actuarial losses.

2.3 Functional and presentation currency

These ?nancial 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 ?nancial 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.

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.

3.1 Revenue recognition

(a) Government revenue grants

Income represents the revenue grants receivable from the Government and other co-operating partners during the year and is accounted for on an accruals basis. Government grants are recognised when there is reasonable assurance that they will be received and the Authority will comply with the conditions associated with the grant. Grants that compensate the Authority for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

(b) Capital grants

Capital grants are recognised initially as deferred income at fair value where there is reasonable assurance that they will be received and the Authority will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

(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.

3.1 Revenue recognition (continued)

(d) Asycuda processing fees

This 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.
- 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.

3.2 Lease payments

Payments made under operating leases are charged to profit or loss on a straight-line basis over the lease period.

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.

Non –monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the foreign exchange rates ruling at the dates that the values were determined. Non monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss.

3.4 Employee benefits

i) Defined benefit plan

The Authority operates a retirement benefit scheme which is of the nature of a defined benefit scheme. Under the defined benefit scheme, the employees are entitled to retirement payment based on the number of years worked and their terminal salaries at retirement. The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by estimating the expected future cash flows using interest rates of Government bonds which are denominated in the currency in which the benefit will be paid, and have terms to maturity approximating to the terms of the related pension liability.

The Authority recognises all actuarial gains and losses arising from defined benefit plans in profit or loss and all related expenses related to personnel expenses in profit or loss.

ii) Defined contribution plan

Obligations for contributions to National Pension Scheme Authority (NAPSA) are recognised as an expense in profit or loss when they are due.

Zambia Revenue Authority contributes to the NAPSA where the Authority pays an amount equal to the employees' contributions. Employees contribute 5% of their gross earnings or a maximum of K533,622 whichever is lower.

iii) Short-term employee 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. If benefits are payable more than 12 months after the reporting date, they are discounted to their present value.

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.

3.5 Finance income and finance costs

Finance income comprises interest income on bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise foreign currency gains and losses which are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

3.6 Cash and cash equivalents

Cash and cash equivalents include notes 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 Significant accounting policies *(continued)*

3.7 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)*

3.7 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 ?ows 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.

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.

3 Significant accounting policies *(continued)*

3.7 Financial assets and financial liabilities *(continued)*

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.

3.8 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)*

3.9 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.

3.10 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.

Leasehold land is carried at cost.

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:

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

Land is not depreciated.

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 Significant accounting policies *(continued)*

3.11 Revaluation of buildings

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

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

The revaluation reserves are amortised annually over the estimated period in which the Authority will enjoy the benefit of the asset. This is done by transferring the annual amortisation from the revaluation reserve to the capital fund.

Directors assess the fair values of buildings annually, however, it is the Authority's policy to revalue buildings every five years. In instances where the changes in fair values become significant, the building will be revalued in a period shorter than 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 Leased assets

Leases in terms of which the Authority assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and are not recognised in the Authority's statement of financial position.

3.14 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 Significant accounting policies *(continued)*

3.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

3.16 Fiduciary activities

The Authority acts in a fiduciary capacity that results in the holding of funds on behalf of the Government of the Republic of Zambia. These funds are treated as assets with corresponding liabilities on the statement of financial position.

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 IFRS 9 *Financial Instruments,* which becomes mandatory for the Authority's 2013 financial statements and could change the classification and measurement of financial assets. The Authority does not plan to adopt this standard early and the extent of the impact has not been determined.

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 asset lives, residual values and depreciation methods

Property, plant and equipment are depreciated over their useful lives 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.

(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.

(d) 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

	2011 K'000	2010 K'000
Annual budgetary allocation	**266,399,613**	236,622,408
Supplementary funding	**7,748,132**	8,487,263
	274,147,745	245,109,671

Included in supplementary funding is K5.9billion in respect of litigation support.

8 Asycuda processing fees

	2011 K'000	2010 K'000
Administration costs	**2,873,390**	2,394,094
Asycuda professing fees	**14,105,732**	11,752,825
Scanner maintenance fees	**9,142,604**	7,617,571
	26,121,726	21,764,490

9 Other income

	2011 K'000	2010 K'000
Cigarette stamps sales proceeds	**1,547,093**	822,152
Sundry income	**1,296,860**	3,134,159
Gain/(loss) on disposal of property, plant and equipment	**94,661**	(168,094)
Rental income	**377,728**	377,705
	3,316,342	4,165,922

Sundry income in cludes tender fee of K106 million (2010: K112 million) and sale of certificates of K969 million (2010:K91 million).

10 Investment climate facility

	2011 K'000	2010 K'000
Investment climate facility funding (note 12)	**1,327,889**	-

In the year under review, the Authority received financial support from Investment Climate Facility for Africa (ICF) in implementing an integrated Tax Administration System with E-Registration, E-filling and E-Payment options.

11 Deferred income

	2011 K'000	2010 K'000
Non-current	**9,640,849**	11,420,698
Current	**1,779,849**	1,779,849
	11,420,698	13,200,547
At beginning of year	**13,200,547**	17,181,906
Prior year adjustment (note 35)	**-**	(2,201,510)
Recognised in profit or loss	**(1,779,849)**	(1,779,849)
At year end	**11,420,698**	13,200,547

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

12 Climate change grant

	2011 K'000	2010 K'000
At beginning of year:	-	
- Investment Climate Change (ICF)	**2,754,925**	-
- Norwegian Mining Tax Administration (NTA)	**1,726,742**	-
	4,481,667	-
Recognised in profit or loss:		
- Investment Climate Change (ICF) (note 10)	**(1,327,889)**	-
- Norwegian Mining Tax Administration (NTA)	**-**	-
	(1,327,889)	-
At year end	**3,153,778**	-

In December 20 11, the Authority received technical assistance funding from the Royal Norwegian government for strengthening mining tax administration.

13 Personnel expenses

	2011 K'000	2010 K'000
Basic pay	**95,574,367**	82,358,772
Housing allowance	**34,867,474**	26,772,959
Bonus	**8,979,004**	7,403,622
Overtime	**10,277,606**	9,423,896
Leave pay	**16,560,780**	10,426,839
Other allowances	**50,061,781**	6,322,891
Defined benefit plan actuarial gains	**2,318,933**	38,505,145
NAPSA	**6,259,880**	5,471,250
Staff welfare and professional subscriptions	**1,664,900**	1,218,086
Medical expenses	**3,084,997**	3,079,726
Staff benefit adjustment	**18,644**	(1,557,216)
Insurance	**2,995,926**	2,150,376
Training	**2,035,098**	2,400,794
	234,699,390	193,977,140

14 Administrative expenses

	2011 K'000	2010 K'000
Repairs and maintenance - buildings	**2,124,215**	5,188,246
Postage and telephones	**3,392,404**	3,260,485
Printing and stationery	**1,999,747**	2,261,666
Subscriptions and publications	**671,381**	727, 670
Travel expenses	**3,467,510**	3,476,066
Electricity, water and rates	**934,178**	1,026,007
Office rentals	**550,937**	604,472
Insurance	**713,479**	200,693
Corporate social responsibility	**666,937**	1,071,773
Board expenses	**383,985**	445,104
Bank charges	**632,835**	985,053
Bad debts	**238,817**	-
Audit expenses	**532,440**	252,832
Advertising and public relations	**1,252,855**	1,168,573
Staff uniforms	**44,095**	1,295,861
Motor vehicle repairs	**1,520,332**	2,180,578
Motor vehicle insurance and licence	**1,269,994**	1,099,045
Fuel	**2,965,335**	2,262,901
	23,361,476	27,507,025

15 Operating expenses

	2011 K'000	2010 K'000
Necor fees	**16,930,100**	11,685,013
Other professional fees	**501,772**	338,758
Scanner operations	**4,472,589**	1,717, 941
Field work - fuel	**2,229,691**	1,588,114
Security	**5,141,521**	4,297,564
Repairs and maintenance - IT	**13,429,149**	5,795,922
Cigarette stamps - C.O.S.	**812,709**	346,937
Travel/relocation	**6,354,219**	7,987,190
Printing and stationery	**750,885**	1,286,600
Advertising/promotional material, conferences and seminars	**460,104**	905,072
	51,082,739	35,949,111

16 Net financing income

	2011 K'000	2010 K'000
Interest income	**1,124,701**	864,727
Net exchange losses	**(84,671)**	-
	(84,671)	-
Net financing income	**1,040,030**	864,727

17 Taxation

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

18 Property, plant and equipment

	Valuation Buildings	Cost Plant and office equipment	Cost Motor vehicles	Cost Furniture fixtures and fittings	Cost Capital work in progress	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Cost/valuation						
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)	-
At 31 December 2010	108,612,892	51,111,613	20,692,268	4,968,818	5,698,771	191,084,362
At 1 January 2011	**108,612,892**	**51,111,613**	**20,692,268**	**4,968,818**	**5,698,771**	**191,084,362**
Additions	**-**	**2,835,361**	**2,027,086**	**525,456**	**-**	**5,387,903**
Disposals	**-**	**(363,181)**	**(2,024,635)**	**(8,744)**	**-**	**(2,396,560)**
Transfer of cost of intangible asset	**-**	**(1,225,527)**	**-**	**-**	**-**	**(1,225,527)**
Write off of CWIP previously impaired*	**-**	**-**	**-**	**-**	**(5,338,835)**	**(5,338,835)**
Transfers	**359,936**	**-**	**-**	**-**	**(359,936)**	**-**
31 December 2011	**108,972,828**	**52,328,266**	**20,694,719**	**5,485,530**	**-**	**187,481,343**
Accumulated depreciation and impairment losses						
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
Disposals	-	(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
At 1 January 2011	**4,210,257**	**30,489,188**	**13,477,271**	**3,761,339**	**5,338,835**	**57,276,890**
Charge for the year	**2,179,457**	**4,196,744**	**3,334,704**	**468,466**	**-**	**10,179,371**
Reversal on write-off of CWIP fully impaired*	**-**	**-**	**-**	**-**	**(5,338,835)**	**(5,338,835)**
Elimination on disposal/adjustment	**-**	**(363,181)**	**(1,062,185)**	**(8,744)**	**-**	**(1,434,110)**
At 31 December 2011	**6,389,714**	**34,322,751**	**15,749,790**	**4,221,061**	**-**	**60,683,316**
Carrying amounts						
At 31 December 2011	**102,583,114**	**18,005,515**	**4,944,929**	**1,264,469**	**-**	**126,798,027**
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

*This relates to capital work in progress of K5.3 billion for which an impairment provision was made in 2008. The capital work in progress was written off in the current year.

18 Property, plant and equipment *(continued)*

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

Buildings were revalued on the basis of open market value on 31 December 2008 for existing use by B.A. Property Consultants inde pendent, registered valuation surveyors. The resulting revaluation surplus of K52 billion was credited to the revaluation reserve.

The Authority recognised l and at cost on initial recognition and opted to adopt the cost model on subsequent measurement. Land is a separate asset class and the Authority has continued to measure the value of land at its nominal value.

19 Intangible assets

	Software K'000
Cost	
At 1 January 2010	-
Acquisitions	1,255,527
At 31 December 2010	1,255,527
At 1 January 2011	1,255,527
Additions	-
At 31 December 2011	**1,255,527**
Accumulated depreciation	
At 1 January 2010	-
Charge for the year	83,702
At 31 December 2010	83,702
At 1 January 2011	**83,702**
Charge for the year	**251,105**
At 31 December 2011	**334,807**
Carrying amount	
At 31 December 2011	**920,720**
At 31 December 2010	1,171,825
At 31 December 2009	-

20 Capital commitments

	2011 K'000	2010 K'000
Approved and contracted capital expenditure	**5,387,903**	3,040,142

The approved and contracted capital expenditure will be met through Government funding. Normal capital expenditure is funded through the normal funding and only specific capital funding is deferred income.

21 Inventories

	2011 K'000	2010 K'000
Stationary and cigarette stamps	**2,215,700**	2,057,514
Uniforms	**406,772**	450,865
Other consumables	**45,732**	27,366
At 31 December	**2,668,204**	2,535,745

The cost of inventories recognised as an expense during the period was K2,846 million (2010: K1,295 million).

22 Employee loans and advances

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

	2011 K'000	2010 K'000
Employee loans and advances	**5,009,163**	4,911,565
Included under non – current assets	**1,296,853**	1,561,754
Included under current assets	**3,712,310**	3,349,811
Total employee loans and advances	**5,009,163**	4,911,565

Employee loans and advances

Total loans receivables (net of allowances) held by the Authority at 31 December 2011 amounted to K5 billion (2010: K4.9 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 all 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.

22 Employee loans and advances *(continued)*

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

	2011 K'000	2010 K'000
Home ownership loans	**399,760**	818,640
Other loans	**3,019,680**	2,299,127
Vehicles ownership loans	**1,507,753**	1,355,981
Personal loans	**320,787**	437,817
Gross advances	**5,247,980**	4,910,565
Allowances for impairment	**(238,817)**	-
Loans and advances net of allowances for impairment	**5,009,163**	4,910,565

Maturity analysis

	2011 K'000	2010 K'000
Amounts falling due within one year - included under current assets	**3,712,310**	3,349,811
Amounts falling due after more than one year - included under non-current assets	**1,296,853**	1,561,754

Movement in the allowance for impairment:

	2011 K'000	2010 K'000
At beginning of the year	**-**	720,283
Impairment loss recognised	**(238,817)**	-
Bad debts written off	**-**	(720,283)
At year end	**(238,817)**	-

Aging of impaired loan receivables

Of the total employees' loans and advances K 239 million (2010: K Nil million) which were impaired a re more than 120 days.

Impaired loans are loans which the Authority determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Loans and receivables that were past due and impaired amounted to K239 million in 2011 (2010: Nil).

23 Other assets

	2011 K'000	2010 K'000
Other receivables	**6,139,460**	1,888,686
Prepayments	**53,261**	-
Union Bank Zambia Limited (in Liquidation)	**15,976**	35,799
Impairment for Union Bank balances	**(15,976)**	(35,799)
	6,192,721	1,888,686

24 Cash and cash equivalents

	2011 K'000	2010 K'000
Held in:		
Zambia National Commercial Bank Plc	**23,687,473**	14,510,219
Cavmont Capital Holdings Plc	**-**	159,880
Access Bank Zambia Limited	**24,422,189**	-
Bank of Zambia	**1,509,871**	303,207
Finance Bank Zambia Limited	**893,678**	1,142,610
	50,513,211	16,115,916
Cash on-hand	**221,407**	473,074
	50,734,618	16,588,990

25 Employee benefits

	2011 K'000	2010 K'000
End of contract gratuity	**28,899,645**	52,517,094
Leave pay	**11,406,450**	9,428,254
Retirement benefits	**133,166,220**	95,404,250
	173,472,315	157,349,598

25 Employee benefits *(continued)*

Movement in the present value of the defined benefit obligations

	Leave pay		End of contact		Retirement benefits		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Defined benefit obligations at 1 January	**9,428,254**	9,264,705	**52,507,094**	9,204,302	**95,404,250**	82,337,916	**157,349,598**	100,806,923
Benefits paid by the plan	**-**	-	**(9,927,829)**	(23,121,937)	**(1,826,262)**	(10,508,802)	**(11,754,091)**	(33,630,739)
Service costs	**1,978,196**	163,549	**13,113,227**	39,038,770	**1,458,024**	12,465,950	**16,549,447**	51,668,269
Interest cost	**-**	-	**7,102,995**	-	**1,905,433**	-	**9,008,428**	-
Actuarial (gains)losses in other comprehensive income	**-**	-	**29,991,739**	27,395,959	**(27,672,806)**	11,109,186	**2,318,933**	38,505,145
Defined benefit obligations at 31st December	**11,406,450**	9,428,254	**92,797,226**	52,517,094	**69,268,639**	95,404,250	**173,472,315**	157,349,598

Expense recognised in profit or loss

	Leave pay		End of contact		Retirement benefits		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Service costs	**1,978,196**	163,549	**13,113,227**	39,038,770	**1,458,024**	12,465,950	**16,549,447**	51,668,269
Interest in obligation	**-**	-	**7,102,995**	-	**1,905,433**	-	**9,008,428**	-
Actuarial (gain)/losses recognised	**-**	-	**29,991,739**	27,395,959	**(27,672,806)**	11,109,186	**2,318,933**	38,505,145
	1,978,196	163,549	**50,207,961**	66,434,729	**(24,309,349)**	23,575,136	**27,876,808**	90,173,414

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2011	2010
Discount rate at 31 December	**14%**	10%
Future salary increases	**11%**	7%

The actuarial valuation was done using the projected unit method as per IAS 19, *Employee Benefits* requirements.

26 Trade payables

	2011 **K'000**	2010 K'000
Suppliers	**6,126,324**	7,038,838

27 Other payables

	2011 **K'000**	2010 K'000
Pay As You Earn payable	**20,860,375**	7,800,050
Sundry payables and accruals	**3,258,313**	3,200,501
NAPSA	**955,183**	997,156
Total	**25,073,871**	11,997,707

Included in sundry payables and accruals is an amount of K1.6 billion (2010: K1billion) being a payable to Necor.

28 Border examination fees

	2011 **K'000**	2010 K'000
Border examination fees	**13,639,783**	-

On 28 August 2011, the Government of the Republic of Zambia issued Statutory Instrument No. 101 of 2011 that introduced a fee to be paid on the examination of goods carried on vehicles requiring examination by physical means or by digital imaging at importation or exportation. The fee to be charged was two thousand fee units. One unit is equal to K180. The Government of the Republic of Zambia revoked the Statutory Instrument on 25 October 2011.

29 Financial instruments

(a) Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2011 **K'000**	2010 K'000
Cash and cash equivalents	**50,734,618**	16,588,990
Other assets	**6,192,721**	1,888,686
Employee loans and advances	**5,009,163**	4,911,565
Total	**61,936,502**	21,689,241

Collateral is held for employee loans and advances relating to home ownership and car loans. All other loans are fully insured.

29 Financial instruments *(continued)*

(b) Liquidity risk

The following are the contractual maturities of financial liabilities including estimated interest payments and, excluding the impact of netting agreements:

Residual contractual maturities of financial liabilities

	Carrying amount	Contractual cash flow	Due within 3 months	Due between 3 - 12 months	Due between 1 – 5 years	Due after 5 years
31 December 2011						
Non-derivative liabilities						
Trade payables	**6,126,618**	**6,126,618**	**6,126,618**	**-**	**-**	**-**
Employee benefits	**173,472,315**	**173,472,315**	**-**	**11,406,451**	**28,899,645**	**133,166,221**
Other payables	**25,073,871**	**25,073,871**	**25,073,871**	**-**	**-**	**-**
Total financial liabilities	**204,672,804**	**204,672,804**	**31,200,489**	**11,406,451**	**28,899,645**	**133,166,221**
31 December 2010						
Non-derivatives liabilities						
Trade payables	7,038,838	7,038,838	7,038,838	-	-	-
Employee benefits	157,349,598	157,349,598	-	9,428,254	52,517,094	95,404,250
Other payables	11,997,707	11,997,707	11,997,707	-	-	-
Total financial liabilities	176,386,143	176,386,143	19,036,545	9,428,254	52,517,094	95,404,250

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

29 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:

	2011				2010			
	Kwacha	**GBP**	**USD**	**Total**	Kwacha	GBP	USD	Total
At 31 December								
Assets								
Other assets	**6,192,721**	**-**	**-**	**6,192,721**	1,888,686	-	-	1,888,686
Total assets	**6,192,721**			**6,192,721**	1,888,686	-	-	1,888,686
Liabilities								
Trade and other payables	**30,647,680**	**59,163**	**493,646**	**31,200,489**	18,868,168	-	168,377	19,036,545
Total liabilities	**30,647,680**	**59,163**	**493,646**	**31,200,489**	18,868,168	-	168,377	19,036,545
Net exposure	**(24,454,959)**	**(59,163)**	**(493,646)**	**(25,007,768)**	(16,979,482)	-	(168,377)	(17,147,859)

The following significant exchange rates applied during the year.

	Reporting date mid spot rate	
	2011	2010
USD1.00 to ZMK	**5,110**	4,810
GBP1.00 to ZMK	**7,874**	7,428

(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:

	2011		2010	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Other assets	**6,192,721**	**6,192,721**	1,888,686	1,888,686
Employee benefits	**(173,472,315)**	**(173,472,315)**	(157,349,598)	(157,349,598)
Cash and cash equivalents	**50,734,618**	**50,734,618**	16,588,990	16,588,990
Trade payables	**(6,126,618)**	**(6,126,618)**	(7,038,838)	(7,038,838)
Other payables	**(25,073,871)**	**(25,073,871)**	(11,997,707)	(11,997,707)
Employee loans and advances	**5,009,163**	**5,009,163**	4,911,565	4,911,565
	(142,736,302)	**(142,736,302)**	(152,996,902)	(152,996,902)

30 Customs deposits bank accounts

	2011 **K'000**	2010 K'000
Customs deposits bank accounts	**5,104,742**	1,973,087

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.

31 Tax refunds bank accounts

	2011 **K'000**	2010 K'000
Value Added Tax ("VAT") refund	**30,382,055**	49,804,814
Customs refund	**7,111,952**	5,850,580
Income tax refund	**2,203,894**	5,886,762
	39,697,901	61,542,156

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.

32 Contingent liabilities

There were legal proceedings outstanding against the Authority , which were awaiting ruling/judgment by the courts of law as at 31 December 2011.

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.

33 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 (2010: K378 million).

The Operating lease expense relate to rentals the Authority pays to owners of office spaces with similar terms as above. Since the landlords only transfer the right to use the property to the Authority and retain all risks of ownership, the lease expense is treated as an operating expense in the Statement of Comprehensive Income and the said lease does not affect the Statement of Financial Position.

The rental expense incurred by the Authority on buildings, which are rented under operating leases amounted to K 550 million (2010: K604 million).

34 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. Examples of such transactions include:

- Funding;
- Rentals for accommodation of key management personnel are paid for by the Authority;
- Loans to key management personnel;
- 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 is as follows:

Amounts due to related parties

	2011 K'000	2010 K'000
Government funding received	**266,399,613**	236,622,408
Supplementary funding	**7,748,132**	8,487,263
Year end balances	**274,147,745**	245,109,671

Amounts due from related parties

	2011 K'000	2010 K'000
Tax refund accounts – included in current assets and liabilities	**39,697,901**	61,542,156
Customs deposit accounts – included in current assets and liabilities (note 30)	**5,104,742**	1,973,087
Amounts receivable from the Government in relation to:		
Litigation and claims	**1,012,475**	1,012,475
Government funding	**7,748,132**	9,466,896
	8,760,607	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:

	2011 K'000	2010 K'000
Salaries and allowances	**7,929,098**	8,909,582
Post employment benefits	**3,663,915**	2,259,723
Sitting allowances	**383,985**	445,104
	11,976,998	11,614,409

35 Prior year adjustments

Statement of financial position at 31 December 2009

	K'000
Employee benefit obligation as previously stated	62,191,843
Prior year adjustment (note 35 (c))	77,120,225
Employee benefit obligation as restated	139,311,768

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

	K'000
Capital fund at 1 January 2010 as originally stated	11,605,703
Write off of capital reserves (note 35(a))	650,491
Deferred income adjustment (note 35 (b))	2,201,510
Employee benefit error (note 35 (c))	(77,120,225)
Capital fund at 1 January 2010 as restated	(62,662,521)

35(a) Write off of capital reserve

An amount of K650,491,000 was being carried in the financial statements for a number of years. The amount arose when assets were transferred from two Government Departments (Department of Taxes and Department of Customs) in 1994 (see note 1). These assets have by now been fully amortised and as such the related capital reserve should have been extinguished and this amount fully written off via the capital fund. The adjustment has been made to correct prior period errors of carrying the capital reserve amounts, which should have been fully amortised.

35(b) Deferred income adjustment

The prior year adjustment made in respect of deferred income relates to correction of overstatement of the capital grant that was received from the Government of the Republic of Zambia in 2007. The amount recognised as deferred income had been overstated by K2.2 billion.

35(c) Employee benefit error

The Authority's employee benefits were previously valued using a basis different from the requirements of IAS19, *Employee Benefits*. The Authority decided to comply with the IAS 19 requirements and opted to use the projected unit method to value the employee retirement benefits. An actuary was engaged to compute the employee benefits for 2011. The resultant employee benefits as computed by the actuary resulted in a liability higher than that shown in the financial records of the Authority. It was noted that the employee benefits from previous years had been understated by K77 billion. This adjustment addresses the error in the figures for the valuation of the employee benefits.

Based on the actuary's reports, the Authority has determined that the error in the employee benefits relates to errors before 31 December 2009.

36 Subsequent events

Other than the issue noted on note 28, there were no material events subsequent to the reporting date that would require disclosure or adjustment to, these financial statements at 31 December 2011 (2010: Nil).

37 Comparative figures

Other than issues noted on prior year adjustments note 35, there were no changes to comparative figures.

38 Going concern

At 31 December 2011, the Authority's total liabilities exceeded its total assets by K32 billion (2010-*restated*: K18 billion). The ability of the Authority to continue as a going concern is dependent upon the continued support of the Government of the Republic of Zambia who is the funder.

Trade and other payables have continued to be settled in the normal course of business and the Directors have obtained a written undertaking from the Government of the Republic of Zambia (GRZ), that the necessary financial and operational support will be made available for the 12 months following the date of signing of the financial statements. Based on the foregoing, it is the Directors' view that it is appropriate for the financial statements to be prepared on a going concern basis. Accordingly, the financial statements are prepared on the basis of accounting applicable to a going concern.

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
ZRAIC Secretariat, Zambia Revenue Authority,
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