ZAMBIA REVENUE AUTHORITY

My Tax Your Tax Our Destiny

ANNUAL REPORT 2019

Letter of Transmittal

CHAIRMAN OF THE ZAMBIA REVENUE AUTHORITY GOVERNING BOARD

29th May, 2020.

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

Honourable Minister,

I have the honour of presenting to you, on behalf of the Governing Board, the 25th Annual Report of the Zambia Revenue Authority, covering the Financial Year 1st January 2019 to 31st December 2019.

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

Yours faithfully,

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

VISION

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

MISSION STATEMENT

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

OUR MANDATE

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

VALUES

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

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

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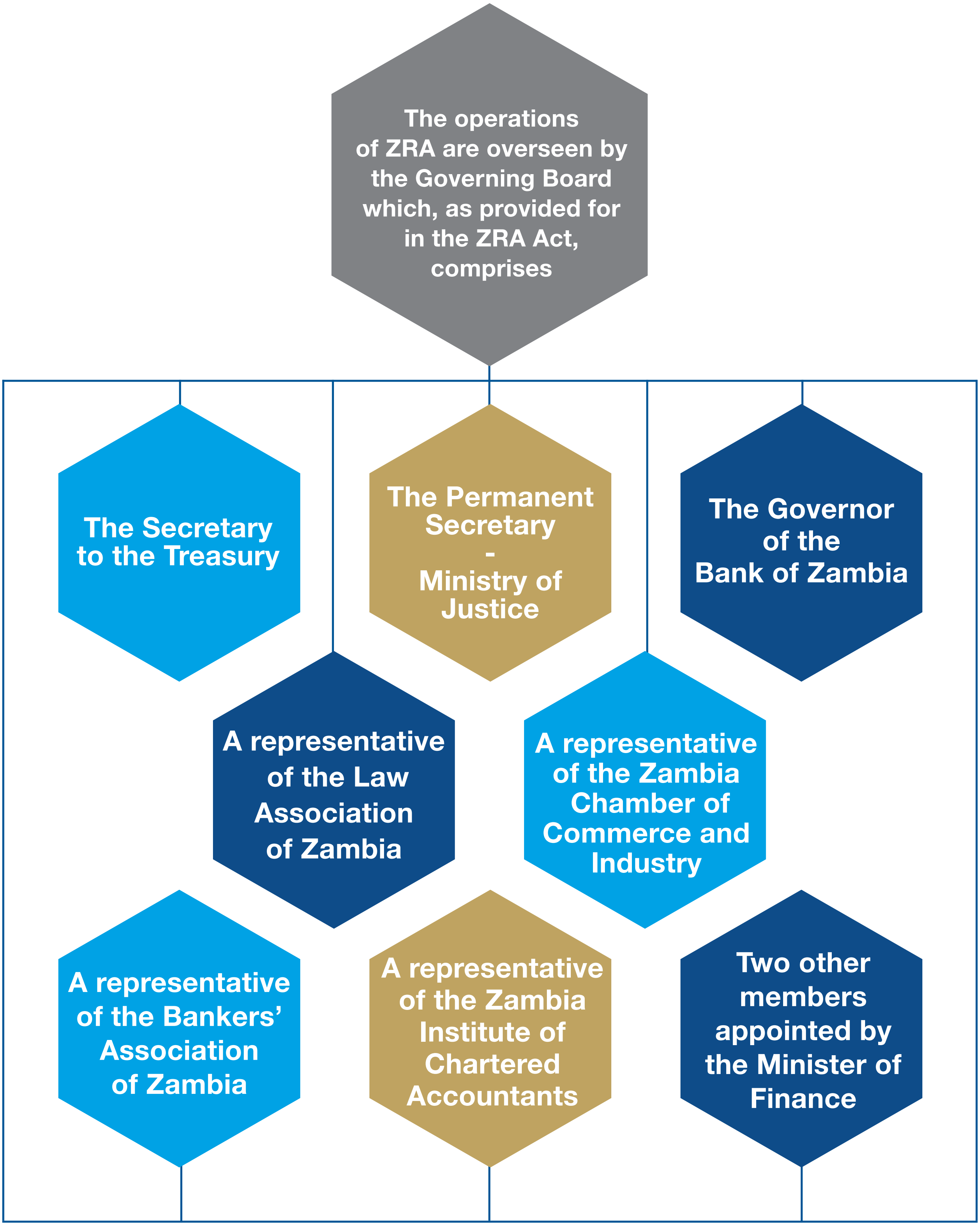
ABBREVIATIONS

ACC	Anti-Corruption Commission
AFRITAC	African Regional Technical Assistance Centre
ASYCUDA	Automated System for Customs Data
ATAF	African Tax Administration Forum
BIDA	Bulk Intelligence Data Analytics
BMS	Block Management System
CCTV	Closed-Circuit Television
COMESA	Common Market for Eastern and Southern Africa
CPC	Centralised Processing Centre
CSA	Customs Self-Assessment
CSP	Corporate Strategic Plan
DEC	Drug Enforcement Commission
DFID	Department for International Development (UK)
EFD	Electronic Fiscal Device
ERM	Enterprise Risk Management
ESD	Electronic Signature Device
FCR	Fiscal Cash Register
FIC	Financial Intelligence Centre
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
ICE	Inspectorate and Customs Enforcement
ICT	Information and Communication Technology
IMF	International Monetary Fund
KPI	Key Performance Indicator
KRA	Key Result Areas
MIDAC	Mineral Data Analysis Centre
MMMD	Ministry of Mines and Mineral Development
MOSES	Mineral Output Statistical Evaluation System
MVCMP	Mineral Value Chain Monitoring Project
OSBP	One-Stop Border Post
PACRA	Patents and Companies Registration Agency
PAYE	Pay As You Earn
PMDC	Performance Management and Development Contract
RDA	Road Development Agency
RTSA	Road Transport and Safety Agency
SADC	Southern African Development Community
TIMS	Tax Invoice Management System
TIZ	Transparency International Zambia
TPIN	Tax Payer Identification Number
TTMS	Telecommunication Traffic Monitoring System
USSD	Unstructured Supplementary Service Data
VAT	Value Added Tax
VDP	Value for Duty Purpose
VEFD	Virtual Electronic Fiscal Device
WSS	Wellness Support Scheme
WTO	World Trade Organisation
ZABS	Zambia Bureau of Standards
ZACCI	Zambia Chamber of Commerce and Industry
ZAMeT	Zambia Mobile Electronic Taxation
ZAMSTATS	Zambia Statistics Agency
ZAMTEL	Zambia Telecommunications Company Limited
ZANAMACA	Zambia National Marketeers Credit Association
ZDA	Zambia Development Agency
ZICA	Zambia Institute of Chartered Accountants
ZNDC	Zambia National Data Centre
ZRA	Zambia Revenue Authority

Corporate Profile

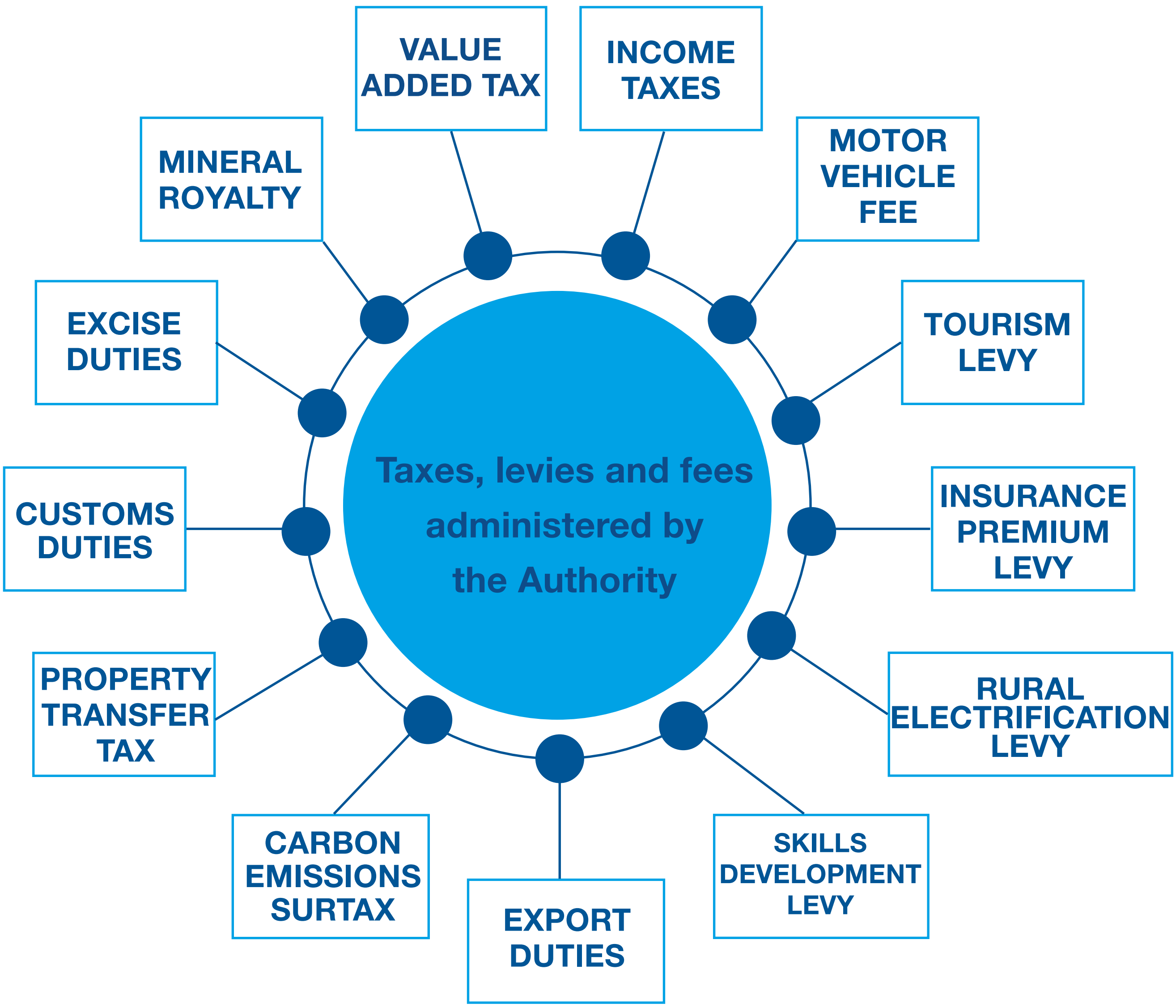
The Zambia Revenue Authority (ZRA) was established on 1st April 1994 as a corporate body, under the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia enacted in 1993. Pursuant to this Act, ZRA is charged with the responsibility of collecting revenue on behalf of the Government of the Republic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



RESPONSIBILITIES

The functions of ZRA are to:

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



STAKEHOLDERS

The stakeholders in the operations of ZRA include:

- The Government of the Republic of Zambia
- The Media
- Tourists and travellers
- The people of Zambia
- The taxpayers, the business community and their interest groups, together with their professional advisors
- Members of regional and other multilateral groupings such as the Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), World Trade Organisation (WTO) and other countries transacting with Zambia
- Non-Governmental Organisations and other interest groups
- Cooperating Partners, e.g. the International Monetary Fund (IMF), World Bank, the European Union (EU), and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
- Traders crossing Zambia's borders
- The Governing Board, Management and Staff of ZRA

PERFORMANCE HIGHLIGHTS - 2019

Tax to GDP ratio increased to **17.7% in 2019 from 17.2% in 2018**

ZRA collected **K53.0 Billion** on behalf of the Government

ZRA recorded a surplus in collections of **K1.1 Billion**

100% of the Tax Clearance Certificates were processed within the Taxpayer Charter standard of two days

A total of **897** tax registrations were conducted using the Block Management System

MEMBERS OF THE ZRA GOVERNING BOARD

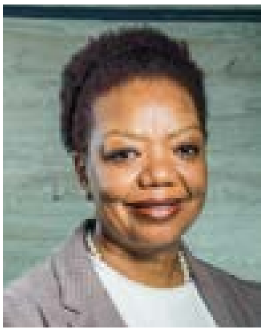
Ms. Chileshe M. Kapwepwe
Chairman

Mr. Alfred J. Lungu
Vice Chairman

Dr. Denny Kalyalya
Member

Mr. Fredson K. Yamba
Member

Mr. James Koni
Member



Mrs. Thandiwe D. Oteng
Member

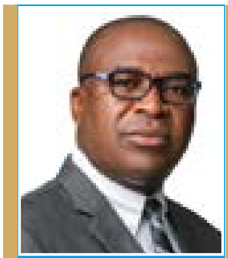
Mr. Kamalesh M. Shah
Member

Mrs. Cecilia B. Zimba
Member

Mr. Andrew M. Musukwa
Member

MEMBERS OF THE ZRA SENIOR MANAGEMENT


Mr. Sydney Chibbabuka
Commissioner Customs Services


Mr. Moses Shuko
Commissioner Domestic Taxes


Mr. Kingsley Chanda
Commissioner General


Mr. Dingani C. Banda
Commissioner Modernisation & Corporate Strategy


Mrs. Brigitte N. Muyenga
Commissioner Finance


Mr. Kwegyer Msimuko
Deputy Commissioner Support

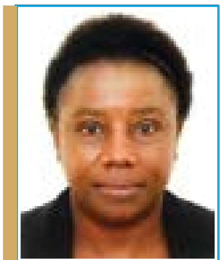

Mr. Peter Phiri
Director Large & Specialised Taxpayer Office


Mr. Ezekiel Phiri
Director Research & Policy


Mrs. Suzyo M. Ng'andu
Board Secretary


Mr. Benjamin Simpungwe
Director Treasury Management

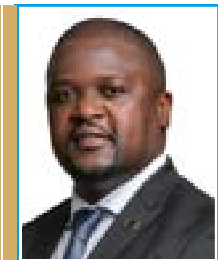

Mr. Timothy Milambo
Director Finance


Mrs. Patricia B. Lungu
(Ag) Deputy Commissioner Operations


Mr. Richard Kapasa
(Ag) Director Design Monitoring & International Relations


Mr. Clement M. Kasepa
Director Investigations


Mr. Monday M. Katongo
Director Information Communication Technology


Mr. Moffat Nyirenda
Director Human Resource

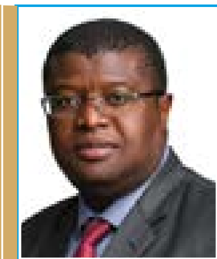

Mr. Morgan Mukwasa
Director Legal services


Mrs. Kasonde M. Kasonde
(Ag) Director Internal Audit


Mr. Ronald Chalwe
Director Informal Sector & Medium Taxpayer Office


Mr. George Mwale
Director Indirect Taxes-VAT & Insurance Premium Levy


Mr. Wagner Chilembo
Director Indirect Taxes-Excise


Mr. Moonga Mumba
Director Corporate Strategy


Mr. Callistus Kaoma
Director Adiministation

CHAIRMAN'S STATEMENT

It is my privilege to present the 25th Annual Report of the Zambia Revenue Authority for the financial year ended 31st December 2019.

Despite the drought that hit most parts of our country and the region at the start of the year, our performance in 2019 was yet again a resounding testament of the Authority's dedication to Zambia's development objectives. In the face of climate change, the Zambia Revenue Authority (ZRA) maintained a healthy surplus for the third year in a row. During the year under review, ZRA collected K63, 844.7 million in gross taxes and refunded K10, 876.1 million. The net tax collection was K52,968.6 million against a target of K51, 844.2 million, thereby registering a surplus of K1,124.5 million or 2.2 percent above target.

The Zambia Revenue Authority's mandate is the essence of national sovereignty and the principal vehicle of national development. Our work embodies the aspirations of millions of Zambians to chart a unique pathway among the community of nations. However, mobilising revenue is always a demanding task involving the challenges of harmonising and satisfying the conflicting interests of numerous stakeholders. The deftness to resolve and address stakeholder interests comes with high expectations on professionalism and on the integrity of management and staff. It is therefore pleasing that our performance in 2019 demonstrates the soundness of our strategy and the resilience of our staff. My sincere commendation to ZRA staff, management and the Board for a job well done.

The Authority's good performance and successes are partly attributed to a generally conducive but markedly sluggish macroeconomic environment characterised by subdued economic growth trends relative to 2018. Real Gross Domestic Product (GDP) grew by a modest 1.4 percent in 2019 compared to 3.7 percent in 2018. A reduction in output from the mining, transport and storage, construction sectors and constrained electricity generation accounted for much of the slowdown in real GDP growth in 2019. Other factors that constrained growth in the domestic economy include the persistent depreciation of the Kwacha against major trading currencies and an increasing inflation rate. The price of both copper and cobalt on the international market fell during the year signalling reduced foreign exchange receipts. Other macroeconomic variables such as interest rates rose gradually precipitating the tightening of the flow of credit and constricting our ability to achieve the target of increasing the contribution of domestic revenue to GDP to 18.6 percent in 2019.

In 2019, the Authority started executing its Corporate Strategic Plan (CSP) for the period 2019 to 2021, developed with valuable input from internal and external stakeholders. Under the new plan, a new look ZRA website integrating an interactive chatbot in recognition of the potential of artificial intelligence was unveiled. Our intention over the medium term is to develop further the digital channels and systems as we position ZRA for the future. The security of our physical infrastructure and surveillance of sensitive operations through installation of CCTV and access controls at selected stations also received priority focus during the year. With regard to the use of technology in enforcement activities, ZRA was a trailblazer on the African continent becoming the first tax administration to use unmanned drone technology in anti-smuggling operations. In order to address some of the persistent problems with the first generation TaxOnline platform, we pioneered an in-house program in partnership with the Copperbelt University to co-develop a new TaxOnline system, which is expected to be fully operational in 2020. These key initiatives formed the core of our winning strategy in 2019.

In conclusion, I wish to acknowledge the continued support of our partners both local and international. I also wish to put on record my sincere appreciation to the Minister of Finance Honourable Dr. Bwalya Ng'andu, MP and his officials for the support and guidance to the Board. I further extend my gratitude to the Board, management and staff of ZRA for their effort in ensuring that the Authority delivered Government revenue efficiently.

Chileshe M. Kapwepwe
Chairman of the Governing Board (2017-2019)

COMMISSIONER GENERAL'S REPORT

It is my pleasure to present a review of the operations of the Zambia Revenue Authority for the 2019 fiscal year and the attendant audited financial statements.

The year 2019 was challenging as it was characterised by a slowdown in economic activity, largely on account of low electricity generation, which affected production. Despite the unfavourable economic conditions, revenue collection remained resilient. The Authority surpassed its revenue target for the year of K51.8 billion by K1.1 billion. The gross revenue collected was K63.8 billion while K10.9 billion was paid out in tax refunds resulting in a net collection of K52.9 billion. Of the total refunds, K10.5 billion was paid out in VAT refunds, with over 70 percent being paid to the mining sector. The net tax collection of K52.6 billion translates to 17.7 percent of the projected GDP for 2019 compared to 17.2 percent recorded in 2018.

Total revenue collections during the year grew by 9.3 percent against a target of 7.0 percent. The strong revenue outturn was attributable to higher collections under indirect and trade taxes which posted surpluses of K264.8 million and K906.3 million, respectively.

The year 2019 marked the first year of implementation of the 2019 - 2021 ZRA Corporate Strategic Plan. The performance was remarkable across all our corporate strategic pillars. The Authority managed to fully achieve 70 percent of its Key Performance Indicators tracked in the year across the Plan's four strategic pillars namely tax compliance; customer focus and collaborations; process efficiency; and right people.

The Authority has embraced taxpayer focus as a necessary tool for driving compliance anchored on the belief that a knowledgeable and satisfied taxpayer will always strive to be compliant. To underscore this, the Authority, during the year, upgraded three provincial offices namely Solwezi, Chipata and Kasama to Assistant Director level. This significantly improved service delivery to our taxpayers and enhanced revenue collection. Furthermore, the northern region was strengthened with the opening of an Excise unit in Ndola while the Transfer Pricing unit in Domestic Taxes Division was renamed the International Taxation Unit in recognition of the unit's broadened scope of handling international tax transactions besides transfer pricing.

The administration of a self-assessment tax system like ours requires constant review of our enforcement and compliance strategies if we are to keep pace with the ever-changing business practices. Consequently, enhancing voluntary compliance was fundamental in informing our modernisation reform. The initiatives implemented focused on simplifying compliance through the development of a more robust, futuristic, interactive and user-friendly tax administration system. To this extent, we developed a new TaxOnline system in the year under review. Furthermore, TaxOnphone, a USSD based platform, which enables taxpayers to register for taxes and file returns on a mobile phone, was rolled out. This development has made it easier for small and medium taxpayers to register for a TPIN and file tax returns for selected tax types on their mobile phones without internet access. These initiatives have significantly helped to reduce compliance costs for our taxpayers.

In order to improve the monitoring of business transactions especially in the retail and wholesale sectors, the Inspectorate and Customs Enforcement unit enhanced the EFD enforcement activities, which resulted in a collection of K6.4 million in enforcement fines from non-compliant businesses. Our anti-smuggling activities resulted in 4,008 interceptions valued at K1.4 billion.
I am equally delighted to report that in line with our mandate of facilitating international trade, there was an increase in the number of agencies on the Zambia Electronic Single Window platform to 23 in 2019 from 13 in 2018. The number of companies on the Customs Accredited Clients Program (CACP) was 59 in 2019, which resulted in reduced dwell time at our borders. The Authority also implemented the Customs Self-Assessment (CSA) at the five centralised processing centres (CPCs). The decentralisation of the CPCs from the initial two to five across the country coupled with coordination with other Government and border agencies, significantly improved processing efficiency.

As a demonstration of our resolve to uphold high levels of integrity, the Authority hosted a continental integrity workshop courtesy of the African Tax Administration Forum (ATAF) which attracted delegates from 18 African countries. Furthermore, during the integrity month of September, a number of taxpayer engagements were undertaken on matters of integrity under the theme “My Integrity Matters”.

In order to promote a healthy and productive workforce, the Board approved a new Employee Wellness Policy. The Policy achieves this objective through encouraging lifestyle changes and employee fitness through sport. I would like to thank the Minister of Finance and his officials for their support, which made it easy for us to execute our mandate effectively. I wish to also thank the Governing Board for its strategic guidance and leadership. To management and staff, I want to assure you that we are in this together and I have no doubt that with teamwork we are destined for greater heights.

As I conclude, I wish to acknowledge that revenue collection will be a daunting task in the coming year due to the many challenges and risks that are still unresolved in our environment. However, I remain confident that no challenge is insurmountable, and together we shall arise and achieve even greater results.

Kingsley Chanda
Commissioner General

OVERVIEW OF THE AUTHORITY

Overview of the Performance of the Authority

The Authority is a corporate entity established by the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia enacted in 1993. The operations of the Authority are overseen by the Governing Board while the Commissioner General who is the Chief Executive Officer is responsible for the day to day business.

1. The Governing Board

The Governing Board comprises nine members that are appointed by the Minister of Finance in line with the ZRA Act. The membership is drawn from both the public and private sectors; and had the following Committees in 2019:

1.1 Audit and Risk Committee

This Committee provides independent assurance on the effectiveness of internal controls and the achievement of set objectives. In addition, the Committee provides assurance regarding the integrity of financial statements and compliance with relevant regulatory requirements.

1.2 Finance Committee

The Finance Committee scrutinizes the Authority's financial policies and guidelines to ensure proper accountability in utilization of operational funding and provide guidance on banking arrangements for revenues and safeguarding of ZRA's assets.

1.3 Legal, Staff and Disciplinary Committee

The Committee considers and provides guidance on all legal and human resource related matters referred to it by management.

1.4 Modernisation and Corporate Strategy Committee

The Committee provides guidance on the formulation and execution of the Authority's corporate strategy and the modernisation agenda.

2. The Office of the Commissioner General

The Commissioner General is responsible for the administration of the Authority as its Chief Executive Officer.

Divisions and Departments

During the year under review, the Authority had four Divisions and five Departments, headed by Commissioners and Directors respectively, reporting directly to the Commissioner General.

Customs Services Division

The Customs Services Division is mandated to administer the Customs and Excise Act Chapter 322 of the Laws of Zambia. The Division administers and collects trade taxes, fees and charges, which include;

i. Customs duty
ii. Import VAT
iii.Import Excise duty
iv.Fuel levy
v. Carbon Emissions Surtax
vi. Motor Vehicle Fees

The Division also promotes the security and facilitation of legitimate international trade through regulation and control of imports and exports. The Division is also responsible for protecting industry and society through licensing and controlling of warehouses and premises for the manufacture of prescribed goods.

Domestic Taxes Division

The Domestic Taxes Division is mandated to administer all inland taxes provided for under various Acts. The Acts enforced by the Division include: 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 and the Insurance Premium Levy Act No. 21 of 2015. The Division also collects mineral royalty, as provided for under the Mines and Minerals Development Act, No. 11 of 2015 and administers local excise duties as provided for under the Customs and Excise Act Chapter 322 of the Laws of Zambia. Further, the Division collects skills development levy under the Skills Development Levy Act No. 46 of 2016 and Tourism Levy as prescribed under the Tourism and Hospitality Act No.13 of 2015.

Finance Division

The Finance Division is in charge of the accounting function of the Authority, which deals with the management of operational funds, and the treasury function which involves the receipting and accounting for Government revenue. The Division is also responsible for the debt management function at corporate level. Further, the Division in 2019 was responsible for all aspects of human resource management in ZRA, which includes the implementation of staff development, compensation, staff welfare, and payroll management.

Modernisation and Corporate Strategy Division

The Modernisation and Corporate Strategy Division spearheads the reform agenda of the Authority in terms of systems development and critical information management. The Division is also responsible for among other things, the development and maintenance of infrastructure, procurement, risk management, project management, strategy management and business process re-engineering.

Research and Policy Department

The Department undertakes research, statistical analysis, data management and tax policy coordination. The Department also coordinates the development of bulk data analysis capability at corporate level and provides executive support to the Office of the Commissioner General.

Internal Audit Department

The Internal Audit Department provides assurance to management and the Governing Board on the effectiveness and reliability of internal controls, risk management and governance processes within the Authority. The Department also facilitates external audits by the appointed private external auditors and the Office of the Auditor General.

Investigations Department

The Investigations Department investigates allegations of tax offences under the various tax laws. The department is also responsible for prosecuting tax offenders.

Legal Services Department

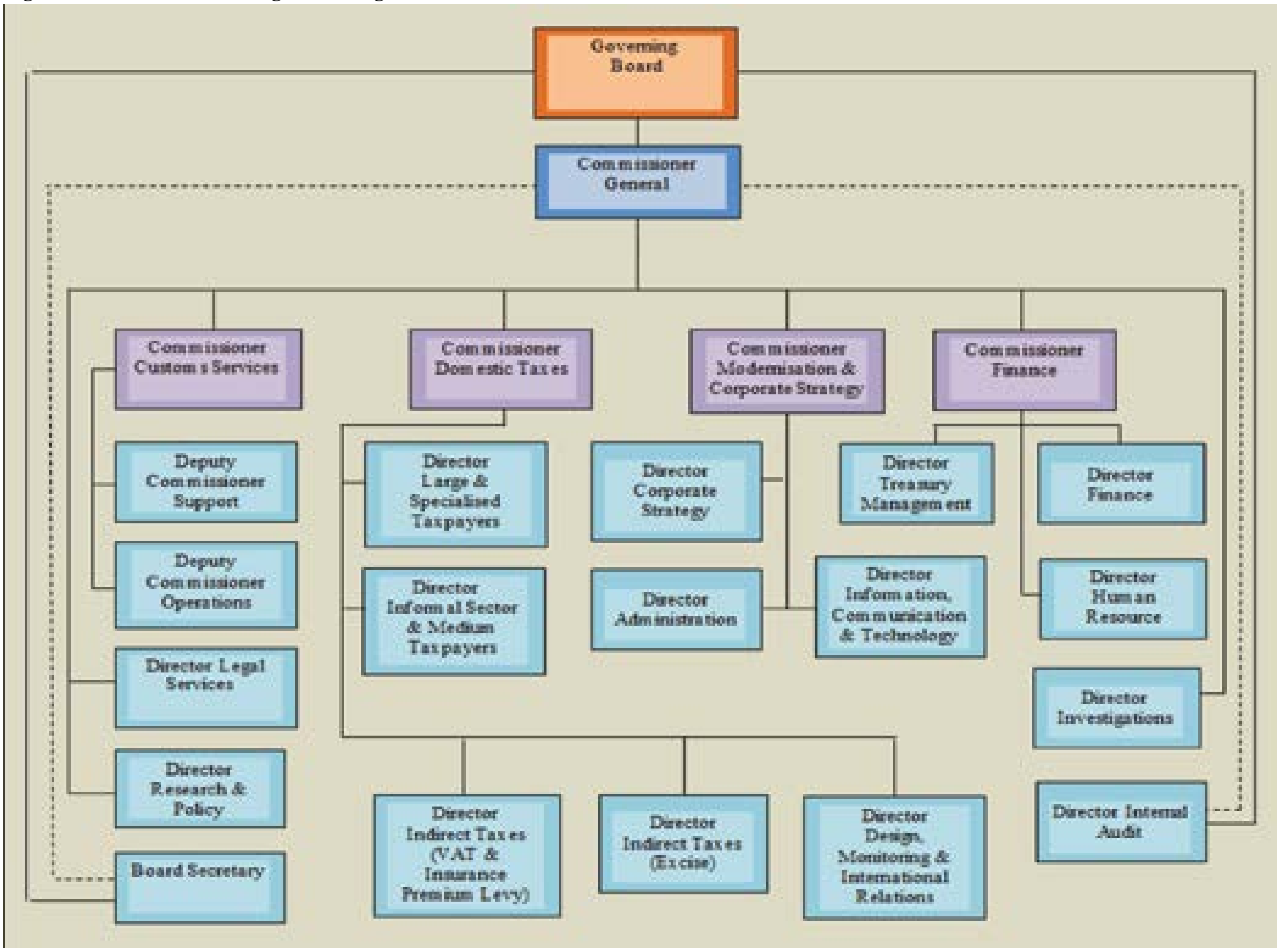
The Department is responsible for providing legal advice to the Authority and attending to civil cases on behalf of the Authority in the courts of law. The Department is also responsible for reviewing appeals and objections from taxpayers aggrieved by the Authority's decisions on tax matters.

Office of the Board Secretary

The Department is responsible for providing day to day secretarial and other services to the Governing Board. The Department also investigates cases of impropriety within the Authority.

Figure 1 shows the governance structure of the Authority as at 31st December 2019.

Figure 1: ZRA Senior Management Organisation Structure as at 31st December 2019



Taxpayer Charter

The Zambia Revenue Authority continued to monitor the Taxpayer Charter in order to ensure continuous improvement in service delivery. The Charter sets out the minimum standards of service that clients should expect from ZRA as it performs its mandate. The service standards outlined in the Charter are broadly divided into two categories:

a) Standards related to the processing of tax refunds and tax registrations; and

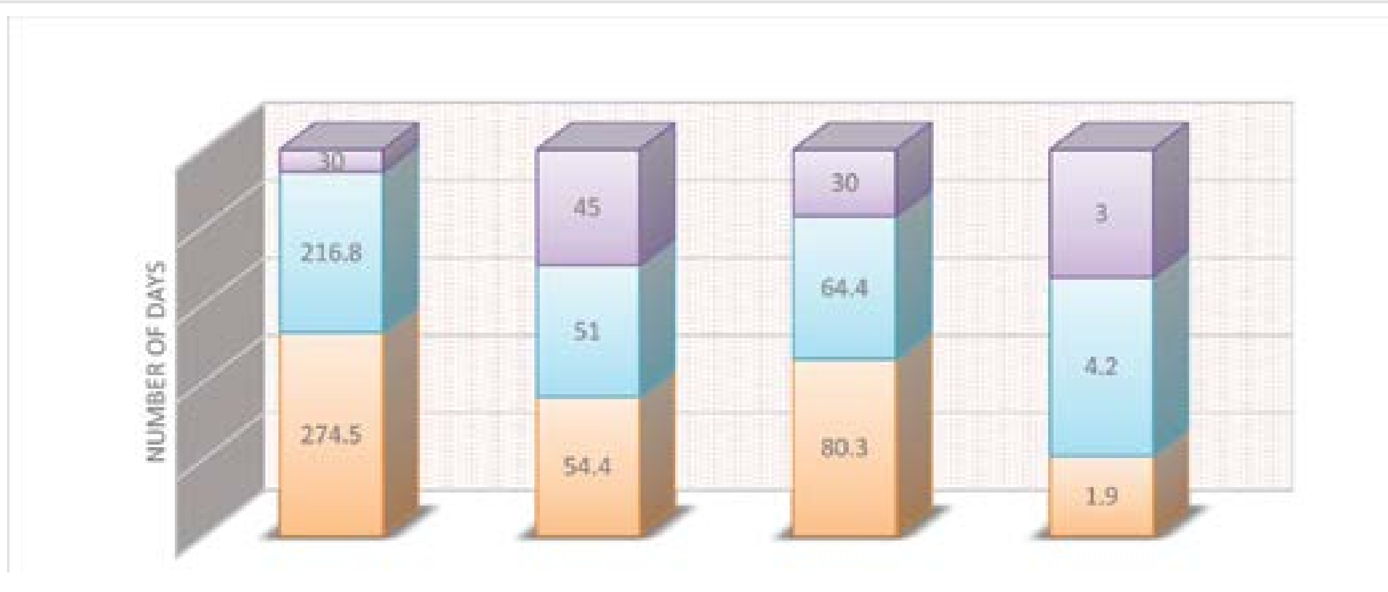
b) Standards related to taxpayer advisory services and processing efficiency.

Standards related to the processing of tax refunds and tax registrations

During the year under review, the performance of the Charter with respect to customs, income tax and VAT refunds were above the stipulated standards. The performance in 2019 with respect to customs refunds was unfavourable as the average processing time increased from 64.4 days in 2018 to 80.3 days in 2019 while VAT refunds averaged 274.5 days from 216.8 days in 2018. The delay in processing VAT refunds was mainly due to increased refund claims in 2019 following the policy pronouncement to introduce sales tax later in the year. This led to the increased need to subject all claims to thorough audit in order to minimise the risk of honouring fraudulent claims. Consequently, this added pressure on an already lean audit staff. Customs refunds on average took 80.3 days in 2019 up from 64.4 days in 2018. The performance of the customs refund was in part due to system challenges especially as regards refunds to Oil Marketing Companies, which affected the processing efficiency (see Figure 2).

The average processing time for tax registrations reduced to 1.9 days in 2019 from 4.2 days in 2018. This was mainly due to the implementation of the TaxOnphone application, which enabled taxpayers to conduct tax registrations using any mobile device without the use of internet connectivity, as well as the simplification of the online application process for TPIN registrations.

Figure 2: Efficiency of Tax Refunds Processing System and Tax registrations (average number of days) in 2019 and 2018



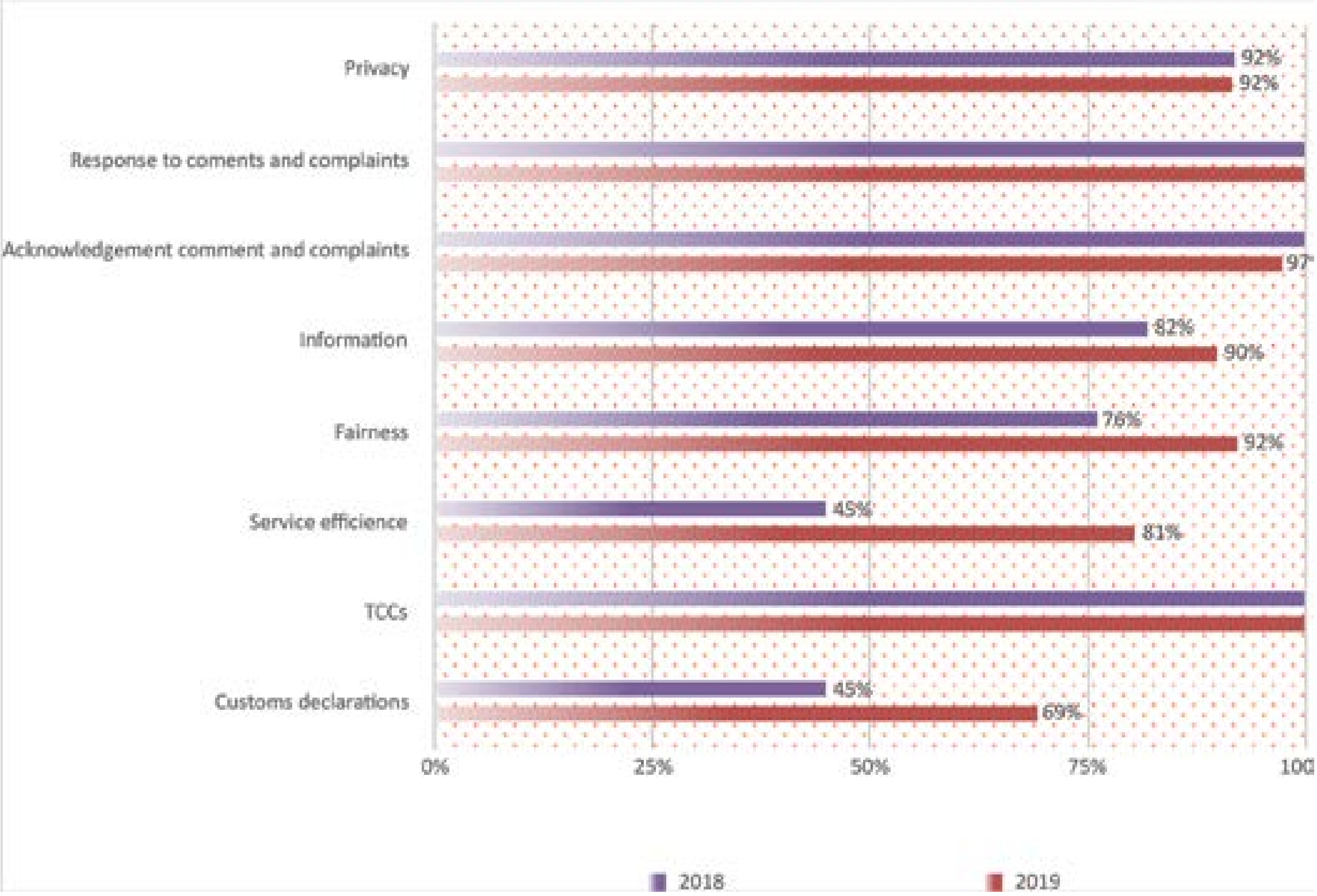
Standards related to taxpayer advisory services and processing efficiency

The Taxpayer Charter monitoring survey in 2019 revealed that taxpayers were generally satisfied with the performance of the Authority with respect to acknowledging and responding to comments and complaints. All sampled cases indicated that the acknowledgements as well as feedback to comments and complaints were provided within the Charter standards. The survey results showed that 92 percent of the taxpayers were satisfied with the Authority's performance with regard to the service standard on confidentiality and privacy policy, which was consistent with the rating in 2018.

With regard to the issuance of Tax Clearance Certificates, all cases processed in 2019 were processed in a day, which was well within the charter standard of two days. Further, 90 percent of the clients revealed that the tax information they received from ZRA was adequate compared to 82 percent recorded in 2018. This performance can be attributed to increased taxpayer education activities through workshops, road shows, radio and television presentations and advertisements.

During the year, customs declarations processed within 1.5 days of registration of the entry increased to 69 percent from 45 percent in 2018. This performance is attributable to the roll out of the self-clearance and the stabilisation of the pre-clearance modules on AsycudaWorld. Furthermore, the time taken to serve taxpayers, improved during the year with 81 percent of clients served within 20 minutes of their arrival compared with only 45 percent in 2018 (see Figure 3).

Figure 3: Effectiveness of Taxpayer Registration and Advisory Services in 2019 and 2018



PRIORITIES FOR THE YEAR

Priorities for the Year

Our priorities for the year were based on the strategic pillars of the Corporate Strategic Plan. Firstly, we focused on increasing tax compliance and expanding the tax net by building a tax paying culture. This was achieved through effective enforcement activities on Withholding VAT agents and the strict application of refund offsets on indebted suppliers.

Secondly, we enhanced our customer focus and collaboration by shifting the customer service perception to improving service accessibility through service centres and technology platforms. Focus was also placed on cultivating productive, reliable, consistent and reciprocal partnerships with our stakeholders. The Authority also carried out a number of corporate social responsibility activities among them the rehabilitation and refurbishment of an ablution block and the water reticulation system at Buseko market in Lusaka.

Our other priority was to leverage on technology to improve process efficiency, enhance service delivery and promote compliance by simplifying business processes. The new look ZRA website integrating an interactive chatbot was unveiled in 2019. Further interventions were carried out to improve the security of our physical infrastructure and surveillance of operations through installation of CCTV and access controls at selected stations. The use of technology for enforcement activities was adopted. In order to address some of the persistent problems with the TaxOnline system and also upgrade it in tandem with prevailing technologies, the Authority embarked on an ambitious program in partnership with the Copperbelt University to co-develop the new TaxOnline system which was expected to be fully operational in 2020.

Fourthly, we focussed on enhancing staff welfare, aptitude and attitude in order to improve institutional capacity, optimize talent management and improve staff integrity. In this regard, we successfully hosted a continental integrity workshop courtesy of the African Tax Administration Forum (ATAF) with delegates from 18 African countries. Furthermore, during the integrity month of September, we undertook various activities to engage staff and taxpayers on integrity. We also continued to carry out reforms in the staff and office accommodation areas in order to improve the operating environment of our staff. Notably, staff houses were constructed in Chinsali, Kasama and Katima Mulilo. Towards the end of the year, a consultant was engaged to conduct a board evaluation exercise with a view to assessing the Board's performance and agreeing on ways to improve the effectiveness of the Board. This was unprecedented and arose from the approval of a Board Evaluation Policy.

Widening the Tax Net

Increasing tax collection from the Mining Sector

The successful implementation of the Mineral Value Chain Monitoring Project has resulted in the introduction of an electronic Mineral Value Chain Monitoring Mechanism. This project has been vital in the mining industry and is currently providing reliable information for decision making to various regulatory authorities mandated to monitor operations of the mining industry.

Some of the benefits realized in 2019 under this project include:

a) Improved efficiencies in the analysis of data reported on the Mineral Output Statistical Evaluation System.
b) Improved reporting compliance among small players in the mining industry.
c) Increased revenue collections.
d) Improved operational efficiency for other partnering institutions like Ministry of Mines and Mineral Development and Zambia Statistics Agency.

The developments in this project will continue improving enforcement and monitoring of activities in the mining sector and will further aim at producing results with financial and non-financial benefits.

Activities of ZRA Tax Agents

In its efforts to improve compliance among taxpayers in the informal sector, the Authority has appointed tax agents for the collection of Base Tax and Withholding Tax on rental income.

During the year, Sherwood Greene Properties Limited, who are agents of withholding tax on rental income, surveyed 19,829 properties or 5,239 taxpayers with collections of K5.1 million being attributable to efforts of the agent. On the other hand, ZANAMACA registered 13,255 taxpayers for base tax. However, no collections were attributable to the newly registered taxpayers. The collection of base tax was hampered by low awareness of the tax type and perceived difficulty in making tax payments amongst stakeholders.

Mobile Compliance Enforcement Activities

The Authority enhanced its enforcement activities with the establishment of the Inspectorate and Customs Enforcement Unit (ICE) at the beginning of 2019. The heightened enforcement operations resulted in 4,008 interceptions with a value of K1.4 billion out of which 1,867 interceptions, with a value of K757.6 million were recommended for investigation

Taxation of Small and Medium Taxpayers

The Authority's 2019 – 2021 Corporate Strategic Plan identifies efficient, reliable and simplified business systems as one key result area. In making progress towards this key result area, the Authority during the year launched a mobile based platform for e-services called TaxOnphone. This platform enables taxpayers to access ZRA services such as registration, filing of tax returns and reviewing of their tax compliance status on a mobile phone or other similar devices without using the internet. As at end year, the application's registration module recorded 81,788 TPINs and seven tax type registrations. The returns filing module on the other hand received 34,979 returns. Of these, 6,574 were non-nil returns with liabilities amounting to K1.7 million by year end (see Table 1). The query module on TaxOnphone which will enable taxpayers confirm their return filing and payment compliance status, as well as enable them to apply for a tax clearance certificate was under-going user acceptance tests as at end year.

Table 1: Count of Returns Filed on TaxOnphone in 2019

Tax Type	Total Count
Nil Returns	
Turnover Tax	28,254
Income Tax	69
Value Added Tax	42
Insurance Premium Levy	40
Non-nil Returns	
Turnover Tax	6,574
Total Returns	**34,979**

Enhancing revenue collection using the Block Management System

During the year, the Block Management System (BMS) continued to be an effective strategy in enhancing compliance amongst small and medium taxpayers. In the period under review, a total of 30 blocks were managed under the BMS. By the end of 2019, collections amounting to K14.0 million were attributable to the BMS activities across the blocks despite other amounts being collected through the mainstream collections. In addition, a total of 32 cases were recommended for audit which yielded K3.4 million.

In 2019, the total number of registrations across all tax types reduced to 897 from 1,492 recorded in 2018. The reduction could be an indication that most businesses are now voluntarily registering for tax due to heightened surveillance in the blocks (see Table 2).

Table 2: Tax Type Registrations in 2019 and 2018 under Block Management System

Type of Registration	Number of registrations	
	2019	**2018**
TPIN	123	323
Turnover tax	239	226
PAYE	266	355
Withholding tax on rental income	239	427
VAT	0	0
Income Tax	13	161
Presumptive Tax	17	0
Total	**897**	**1,492**

Electronic Fiscal Devices

During the year, the Authority implemented Phase II of the Electronic Fiscal Device (EFD) project which included the procurement and distribution of an additional 2,000 Fiscal Cash Registers (FCRs) and 3,000 Electronic Signature Devices (ESDs). As at end year, 2,883 FCRs were distributed out of the targeted 4,000 FCRs, while 98 out of 3,000 ESDs were distributed. The distribution of ESDs faced a challenge due to a requirement to develop integration software in order to operate the device. As at the end of the year, the Authority was working to resolve these challenges with identified system developers.

Further, the Authority undertook benefits monitoring which involved analysing invoice data for irregular reversals and misclassification of sales. Consequently, 946 suspiciously classified invoices with a total sales value of K86.9 million and 328 credit notes valued at K12.1 million were identified for follow-up by relevant units in the Authority.

Improving operational efficiency

In 2019, several projects were undertaken aimed at improving the operational efficiency of the Authority:

Physical Infrastructure Development

1. Housing Projects:

The Authority undertook housing projects at Chinsali, Kasama, Katima Mulilo and Chanida in the year under review.

2. Office Building Projects:

- Remodelling of Customer Service Centre at Edgar Chagwa Lungu Shopping mall;
- Construction of office block at Chinsali which was on-going;
- Remodelling of the eleventh floor of Revenue House;
- Remodelling of the second floor of Revenue House was on going at 45%;
- Rehabilitation of Solwezi Office was on going at 50%;
- Renovation of Customer Service Centre at Nakonde One Stop Border Post;
- Fencing and construction of 2 guard houses at Chanida Border Post;
- Fencing of Katima Mulilo Border Post was on going at 70%;
- Renovations at Chirundu One Stop Border Post at 95%; and
- Rehabilitation of Mongu office;

3. General Infrastructure Projects:

- Installation of lighting mast at Chanida Border Post;
- Alteration and extension of Chelstone Training Centre kitchen was on going at 50%; and
- Painting of external façade and installation of sunshades at Revenue House in Lusaka.

Office Furniture and Equipment

The Authority procured assorted office furniture and non-ICT equipment for its various offices countrywide at a total cost of K6.8 million.

Transport

In 2019, the Authority procured 29 brand new motor vehicles for its operations at a total cost of K7.5 million.

Enforcement and Compliance Actions

Customs Services Division

a) Scanner Operations

The Authority deploys scanners for non-intrusive examination of imports and exports. The use of scanners complements other enforcement activities in the clearance of goods in order to reduce the processing time and increase compliance among importers and exporters.

In the year under review, 73,628 out of 304,866 trucks that passed through Customs stations with scanners were scanned representing 24.2 percent. A total of 161 trucks were found with discrepancies out of which K1.7 million was realized in additional revenue (see Table 3).

Table 3: Scanners Activity Report for 2019

Port	Total Truck Traffic	Scanned	%Scanned of Total Traffic	Truck with discrepancies	Additional Revenue Collected (K)
Chanida	18,947	10,038	53.0%	13	117,261.05
Chirundu	69,387	12,726	18.3%	15	228,882.10
Kapiri Mposhi - EC	-	249	-	6	-
Kasumbalesa	79,680	4349	5.5%	0	0.00
Katima Mulilo	14,319	10,295	71.9%	9	434,504.00
Kazungula	38,824	25,654	66.1%	82	327,550.20
Mwami	9,562	5148	53.8%	3	1,828.00
Nakonde	74,147	5,169	7.0%	33	581,701.53
Total	**304,866**	**73,628**	**24.2%**	**161**	**1,691,726.88**

b) Border Enforcement

Enforcement and compliance activities are undertaken at various ports on a risk-based approach through inspections, road blocks and follow-ups on intelligence.

A comparison of the value of goods detained and seized at various stations in 2019, shows that there was an overall decrease of 31.4 percent on the value for duty purposes (VDP) of goods held compared to 2018 (see Table 4).

Table 4: Detentions and Seizures in 2019 and 2018 (K'Million)

Type	2019	2018	Variance	% Variance
Value of Detained Goods	64.2	133.8	-69.6	-52.0%
Value of Seized Goods	51.1	34.1	17.0	49.7%
Total	**115.2**	**167.9**	**-52.7**	-31.4%

A total of K24.4 million was collected from enforcement activities as indicated in Table 5.

Table 5: Revenue Yield from Station Enforcement Activities for 2019

Station	Revenue Yield from Enforcement Activities (K)
Kapiri Mposhi	17,186,044.5
Livingstone	1,919,000.0
Kitwe	1,419,310.9
Kasumbalesa	1,376,925.3
Nakonde	988,197.6
Katima Mulilo	797,698.1
Chingola	336,143.2
Ndola	156,000.0
Lusaka Port	63,000.0
Mokambo	62,400.0
Mpulungu	53,985.0
Chirundu	32,165.1
Total	**24,390,869.7**

Inspectorate and Customs Enforcement Unit

The Inspectorate and Customs Enforcement (ICE) Unit is mandated to conduct enforcement activities related to customs and domestic taxes. Among its major operations are anti-smuggling patrols and inspectorate checks such as those relating to use of cash registers and electronic fiscal devices. The establishment of ICE has resulted in a more focused strategy of policing non-compliance by the Authority while encouraging voluntary compliance through enhanced taxpayer education and better service delivery.

During the year, mobile compliance enforcement activities focused on curbing smuggling through risk based, random patrols and enforcement operations driven by intelligence. The enforcement operations conducted resulted in 4,008 interceptions valued at K1.4 billion. These interceptions resulted in assessments totalling K107.5 million of which K82.5 million was collected.

Out of the 4,008 interceptions, 1,867 interceptions valued at K757.6 million were recommended for investigation.

Investigations Department

a) Investigations Activities

During the year, 614 cases were investigated out of which 445 were brought forward from 2018. It should be noted that a total of 115 cases were concluded during the year while 499 were carried forward to 2020 (See Table 6).

Table 6: Investigation cases in 2019

	Brought Forward	New Cases Received	Total	Terminated	Referred to Division	Civil Settlement	Referred for Prosecution	Carried Forward
Customs	261	130	391	16	0	47	29	299
Domestic Taxes	184	39	223	4	0	17	2	200
TOTAL	**445**	**169**	**614**	**20**	**0**	**64**	**31**	**499**

From the 614 cases investigated, 391 related to customs and excise, while 223 related to domestic taxes. This represents an increase of 10 percent for customs related cases and a decrease of 8 percent for domestic taxes related cases from the 354 and 243 cases handled in 2018 respectively.

In addition, the forensic audits that were commissioned for five mining entities were completed and assessments issued. As at end year, the Authority was attending to taxpayer objections and appeals arising from these assessments.

Import and export audits were referred to the Tax Appeals Office following objections from the concerned taxpayers, except for one which was finalised.

b) Digital Forensics Activities

During the year under review, the Authority handled 27 digital forensic cases and further examined 86 digital forensic items.

Domestic Taxes Division

During the year, the Domestic Taxes Division identified and prioritised audit cases through the analysis of various risk parameters configured on TaxOnline as well as third-party data and other intelligence information.

a) Tax Audits

Tax audit assessments during the year totalled K3, 300.4 million of which K2, 738.5 million was principal taxes and K561.9 million was penalties, interest and fines. In terms of tax types, local excise duties, VAT and income tax accounted for the larger share of audit assessments with assessed totals of K1,152.2 million, K948.5 million and K653.9 million respectively (see Table 7)

Table 7: Tax Audit Assessments in 2019 (K'Million)

Tax type	Penalties, interest and fines	Principal tax	Total audit assessment
Local Excise Duties	68.3	1,083.9	1,152.2
VAT on domestic goods	64.8	883.7	948.5
Income Tax	308.1	345.8	653.9
PAYE	82.4	190.1	272.5
Withholding taxes	30.5	192.8	223.3
Mineral Royalty	0.5	26.6	27.1
Turnover tax	7.2	15.2	22.4
Insurance Premium Levy	-	0.4	0.4
Grand Total	**561.9**	**2,738.5**	**3,300.4**

b) Block Management System (BMS)

The primary aim of the Block Management System (BMS) project is to enhance compliance of small and medium taxpayers identified in specific areas or blocks. The specific objectives of the BMS are to initiate appropriate taxpayer registrations, enforce tax compliance and conduct taxpayer education in the block.

In 2019, the BMS was employed as a compliance enhancing strategy in seven provinces. There were five blocks managed on the Copperbelt province, two in Central province, one in Luapula province, 12 in Lusaka province, two in Northern province, three in Southern province and five in Western Province, covering 8 towns (see Table 8).

Table 8: Blocks Managed in 2019 by Town

Town	Number of Blocks	Number of Taxpayers in Block	New registrations in Block	Amount of Taxes Collected from Blocks
Kabwe	2	270	123	33,451.3
Kasama	2	539	46	236,217.2
Kitwe	4	574	88	56,035.3
Livingstone	3	-	24	-
Lusaka	12	1,489	455	13,194,664.1
Mansa	1	64	6	222,678.8
Mongu	5	167	20	106,316.5
Ndola	1	1,817	135	181,057.5
Total	**30**	**4,920**	**897**	**14,030,420.7**

At the end of 2019, there was a total of 4,920 taxpayers registered under the block management system with the largest population of 1,817 being under the Ndola office. The Livingstone office on the other hand had no taxpayers registered under BMS by the end of 2019. Through enforcement efforts, return filing rates in the blocks for turnover tax, income tax, income tax provisional, and PAYE were at 73.0 percent, 78.7 percent, 75.2 percent and 68.0 respectively.

c) Taxpayer Education Activities

During the year under review, the Authority continued to utilise various information dissemination platforms to increase awareness on tax matters. The Zambia National Broadcasting Corporation continued to be the main radio and television platform for disseminating tax information. The Authority also intensified taxpayer engagements through various channels such as workshops, taxpayer training sessions, open days, school chats, trade shows, taxpayer visits and tax literature handed out to taxpayers. The taxpayer education sessions covered various topics including TPIN registrations, use of ZRA e-services, EFDs, Customs self-assessment, the Withholding VAT mechanism, advance income tax and customs electronic licensing among others.

Business Development

Enterprise Risk Management and Business Continuity Planning

Enterprise Risk Management remained key to the management of the Authority's risks. The Authority's identified risks, in the 2019 - 2021 Corporate Strategic Plan, were assessed and targeted for mitigation during the year with over 80 percent of the highly rated risks treated in line with the Risk Management Policy. As at end year, seven major risks were on the risk watch-list namely: low taxpayer compliance; systems instability; high prevalence of cash economy; deliberate misclassification and under-declaration of goods under the Self-Assessment programme; unsustainable supply and maintenance of the EFD System; unsustainable TaxOnline system; and terrorism.

The Authority enhanced business continuity resilience by conducting business continuity tests for key systems. Successful tests were done for TaxOnline, ASYCUDAWorld, the Mineral Output Statistical Evaluation System (MOSES) and SAP. Furthermore, the Authority invested in skills training for staff in Business Continuity Management to enhance the capacity in the management of business continuity and ensure the organisation is more able to plan for resilience. Various education and awareness activities were undertaken among staff as required by the policy to increase risk awareness among the Authority staff.

Enhancements on TaxOnline and uptake of e-services

During the year, the Authority completed the development of the first phase of the new and improved TaxOnline system with focus on frontline modules, namely: registration, return filing and payments. The remaining modules namely: debt recovery; assessments; audit; objections and appeals; investigations; and refunds were expected to be delivered in 2020.

With regard to uptake of e-services, 1, 365, 729 returns were filed electronically while 35, 725 returns were filed manually compared to 1, 363, 086 and 39, 820 respectively in 2018. Portal sign-ups decreased to 27, 946 in 2019 from 52, 221 in 2018. Similarly, there was a decrease in e-registration applications received in 2019 with a total of 245,426 applications being processed electronically compared to 521, 720 in 2018 (see Table 9).

Table 9: Uptake of E-Services in 2019 and 2018

Service	Type	2019	2018
Sign up	na	27, 946	52, 221
Registration	i) Electronic	245,426	521, 720
	ii) Manual	19, 398	33, 482
Return Filing	i) Electronic	1, 365, 729	1, 363, 086
	ii) Manual	35, 725	39, 820

ASYCUDAWorld System Upgrade

In 2019, several developments were undertaken on the ASYCUDAWorld system. These included the following;

- Bonded Warehouse: Resolved issues related to inventory management on the Bonded Warehouse Module.
- E-payment enhancements: Enabled payments for post amended entries.
- Customs Accredited Clients Program (CACP) feature: Enabled Functionality for printing special release for Customs Accredited Clients Program.
- Pre-clearance: Enabled the select feature to show if the declaration is normal or pre-cleared.
- Integrated Border Declaration Form (IBDF): Implemented the IBDF for travellers crossing through Zambia.
- Electronic Balance of Payments (e-BOP): Development done and the system is in pilot.

E-Payment

During the year under review, 18 commercial banks and other financial institutions in Zambia were connected to both TaxOnline and ASYCUDAWorld. Of the 18 commercial banks, 11 extended the e-payment platform to non-account holders (see Table 10).

Table 10: Banks Connected With ZRA In 2019

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

Besides the banking payment solution, the USSD mobile tax payment platform offered by mobile network operators through the mobile money facility presented taxpayers with an alternative payment method that does not require internet connections. These mobile solutions have enabled taxpayers to have access to more convenient modes of payment that are accessible at any time.

Modernisation of Trade Logistics

Facilitation of international trade remains a key mandate of the Authority as enshrined in the ZRA Act. Modernisation of trade logistics was therefore prioritized with the following key initiatives being implemented:

- Addition of 23 products to the Customs Valuation Referencing Database bringing the total number of products to 28.
- Establishment of Chanida CPC in July 2019 and subsequent migration of Lusuntha, Mwami and Chanida border posts to the Chanida CPC.
- Configuration on ASYCUDAWorld of Zombe Border Post. The transits destined for exit at the border can now be captured under office profile for Zombe Border Post.
- Separation of Simon Mwansa Kapwepwe International Airport from Ndola Port Office profile on ASYCUDAWorld, which has enabled the capture of imports, exports and transits through these ports using distinct codes.
- The Nakonde Tunduma One Stop Border Post (OSBP) was officially launched by their Excellences President Edgar Chagwa Lungu and Tanzanian President John Pombe Magufuli in October 2019. The OSBP is expected to facilitate quick movement of goods by reducing the processing time for clearance.
- Implementation of the Integrated Border Declaration Form (IBDF) for travelers crossing through Zambia.
- Addition of nine Government ministries to the Electronic Voucher of Exemption bringing the total number to eleven. The Electronic Voucher of Exemption is a module on the Zambia Electronic Single Window.
- The automation of the currency declaration form at Kenneth Kaunda International Airport. The other stations already using the automated form are Katima Mulilo, Kazungula, Victoria Falls, Chirundu, Kasumbalesa and Nakonde.
- Roll out of the Customs Self-Assessment to Lusaka Port, Chirundu One Stop Border, Livingstone Port and Chanida CPCs.

Stakeholder Relations

Co-operating Partner Relations

Collaboration with various stakeholders has been the hallmark of our strategy to leverage on limited resources to effectively undertake our mandate. In this regard, the Authority collaborated with the following partners:

International Monetary Fund

The Authority received technical assistance from the International Monetary Fund (IMF) Fiscal Affairs Department. The Fund offered training and capacity building programs to staff in Research and Policy Department, Domestic Taxes and the Customs Services Divisions. The Fund also offered training to selected members of staff from various divisions in stakeholder engagement, business process mapping and data matching techniques.

Deutsche Gesellschaft fur International Zusammenarbeit (GIZ)

The GIZ supported the Authority in the refurbishment and installation of the electronic queue management system at the Livingstone taxpayer service centre.

GIZ also supported the Authority in the development of a mobile taxation platform (TaxOnPhone) through the Zambia Mobile E-Taxation Project which enables taxpayers to have access to ZRA services on the mobile phone or similar device without the use of internet. The Melinda and Bill Gates Foundation funded the development of TaxOnPhone in collaboration with GIZ.

Furthermore, GIZ continued to support the implementation of the Bulk Intelligence Data Analysis, and operations of our Mobile Offices.

Local Partners

The Authority continued to enjoy cordial relations with local partners in the administration of the various tax laws. Major Government agencies interacted with during the year included the Financial Intelligence Centre, the Anti-Corruption Commission, the Drug Enforcement Commission, the Energy Regulation Board, the Road Development Agency, the Road Traffic and Safety Agency, the Patents and Companies Registration Agency and the Zambia Statistics Agency.

In order to ensure accountability, the Office of the Auditor General and Parliament interacted with the Authority to enhance public confidence.

Furthermore, the Authority also interacted with the Ministry of Finance and other Government Ministries and Departments, the Bank of Zambia, the Zambia Public Procurement Authority, Zambia Bureau of Standards, the media, commercial banks and the Zambia Development Agency, among others.

Corporate Social Responsibility

During the year under review, the Authority carried out various Corporate Social Responsibility programmes which helped to increase its visibility and tax awareness. The major Corporate Social Responsibility programmes included:

1. The rehabilitation and refurbishing of an ablution block at Buseko Market in Lusaka which also included the construction of two water kiosks and the installation of a 10, 000-litre reserve tank.
2. Donation of 105 wheelchairs and 1,500 plastic chairs to the University Teaching Hospital. The procurement of wheel chairs was financed by staff contributions while the plastic chairs were from a Custom's seizure at Kazungula Border.
3. Donation of K168, 580 to the victims of Cyclone Idai that ravaged Malawi, Zimbabwe and Mozambique: The donation was made through the Office of the Vice President and the amount was mobilised through staff contributions.
4. Donation of seized motor vehicles to various Government ministries/ institutions and charitable organisations in the country.

The Authority further donated various assorted food items and clothing that were seized to various charitable organisations in line with the provisions of the Customs and Excise Act.

TRENDS IN DOMESTIC AND GLOBAL ECONOMIC INDICATORS

Trends In Domestic And Global Economic Indicators

This section provides the performance of global economic growth, domestic economic growth as well as the economic variables that affect growth, namely; inflation, exchange rate, interest rates and commodity prices.

The Global Economy in 2019

Global economic growth declined to 2.9 percent[2] in 2019 compared to 3.6 percent recorded in 2018. The slowdown in global economic growth could primarily be attributed to rising trade barriers that stunted manufacturing and investments around the world. The trade war between the United States of America and China as well as uncertainty regarding trade agreements post- BREXIT contributed to a decline in GDP growth.

The Domestic Economy in 2019

The real Gross Domestic Product (GDP) grew by 1.4 percent in 2019, down from 3.7 percent recorded in 2018. A reduction in mining output, construction, transport and storage as well as constrained electricity generation and supply accounted for the larger part of the slowdown in real GDP growth in 2019. Other factors that constrained growth in the domestic economy include the persistent depreciation of the Kwacha against major trading currencies and the higher than anticipated inflation rate.

In 2019, the wholesale and retail trade accounted for 21.1 percent of the real GDP while construction accounted for 10.2 percent followed by mining and quarrying at 10.0 percent; manufacturing (8.2 percent); education (7.8 percent); agriculture, forestry and fishing (6.2 percent); public administration and defence; compulsory social security (5.4 percent) and information and communication (5.2 percent). These sectors collectively accounted for 74.0 percent of the real GDP while the combined share of the rest of the sectors including taxes was 26.0 percent (see Table 11).

Table 11: Growth and Share of Real GDP in 2019 and 2018

Economic Activity (Sector)	Percentage real growth		Percentage share of real GDP	
	2019	2018	2019	2018
Agriculture, forestry and fishing	7.7	(21.2)	6.2	5.9
Mining and quarrying	(5.1)	6.3	10.0	10.7
Manufacturing	2.4	4.1	8.2	8.1
Electricity generation and supply	(8.1)	11.7	1.6	1.8
Water supply; sewerage, waste management and remediation activities	(1.2)	5.1	0.2	0.2
Construction	(5.0)	1.6	10.2	10.8
Wholesale and retail trade; repair of motor vehicles and motorcycles	0.4	3.3	21.1	21.4
Transportation and storage	(2.8)	0.9	3.4	3.3
Accommodation and food service activities	2.2	1.7	1.9	1.9
Information and communication	18.6	40.1	5.2	4.4
Financial and insurance activities	8.1	23.7	4.2	4.0
Real estate activities	3.5	2.5	3.4	3.4
Professional, scientific and technical activities	(0.9)	2.4	1.8	1.8
Administrative and support service activities	0.3	6.0	0.9	1.0
Public administration and defence; compulsory social security	8.3	1.6	5.4	5.1
Education	1.8	4.8	7.8	7.8
Human health and social work activities	8.3	11.0	1.7	1.6
Arts, entertainment and recreation	3.8	12.2	0.4	0.4
Other service activities	3.5	2.5	0.8	0.8
Real GDP Growth Rate	**1.4**	**3.7**		

Source: Zambia Statistics Agency

[2] IMF 2020 World Economic Outlook Report

In comparison to 2018, most of the sectors posted a decline in the real growth rate with the exception of agriculture, forestry and fishing (-21.2 percent in 2018 to 7.7 percent in 2019); accommodation and food service activities (1.7 percent in 2018 to 2.2 percent in 2019); real estate activities (2.5 percent in 2018 to 3.5 percent in 2019); public administration and defence; compulsory social security (1.6 percent in 2018 to 8.3 percent in 2019); and other service activities (2.5 percent in 2018 to 3.5 percent in 2019). Sectors with reduced and negative growth in 2019 include mining and quarrying, electricity generation and supply, water supply; sewerage, waste management and remediation activities, transportation and storage, and professional, scientific and technical activities with growth rates of -5.1 percent, -8.1 percent, -1.2 percent, -5.0 percent, -2.8 percent and -0.9 percent respectively (see table 11).

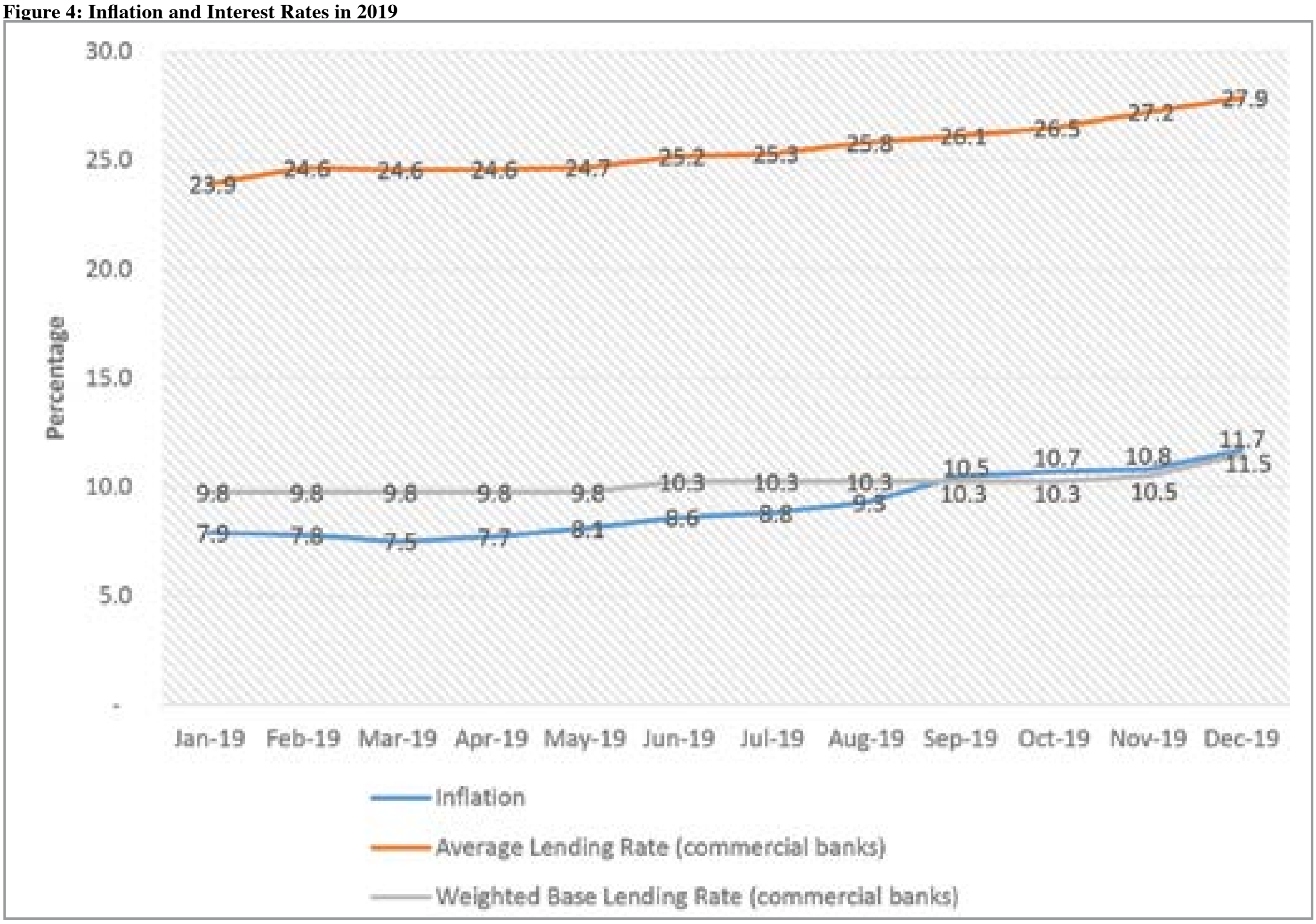
Inflation

The average inflation for 2019 stood at 9.1 percent indicating a 1.6 percentage point increase from the 7.5 percent recorded in 2018. March 2019 recorded the lowest annual inflation of 7.5 percent while the maximum annual rate of inflation was recorded at 11.7 percent in December 2019 (see Figure 4).

Interest Rates

The average commercial bank lending rates surged upwards to 25.6 percent in 2019 from 23.9 percent in 2018. The increase in the lending rates was primarily due to the upward adjustment in the Bank of Zambia Policy Rate to an average of 10.3 percent in 2019 from an average of 9.8 percent in 2018 (see Figure 4).

Figure 4: Inflation and Interest Rates in 2019

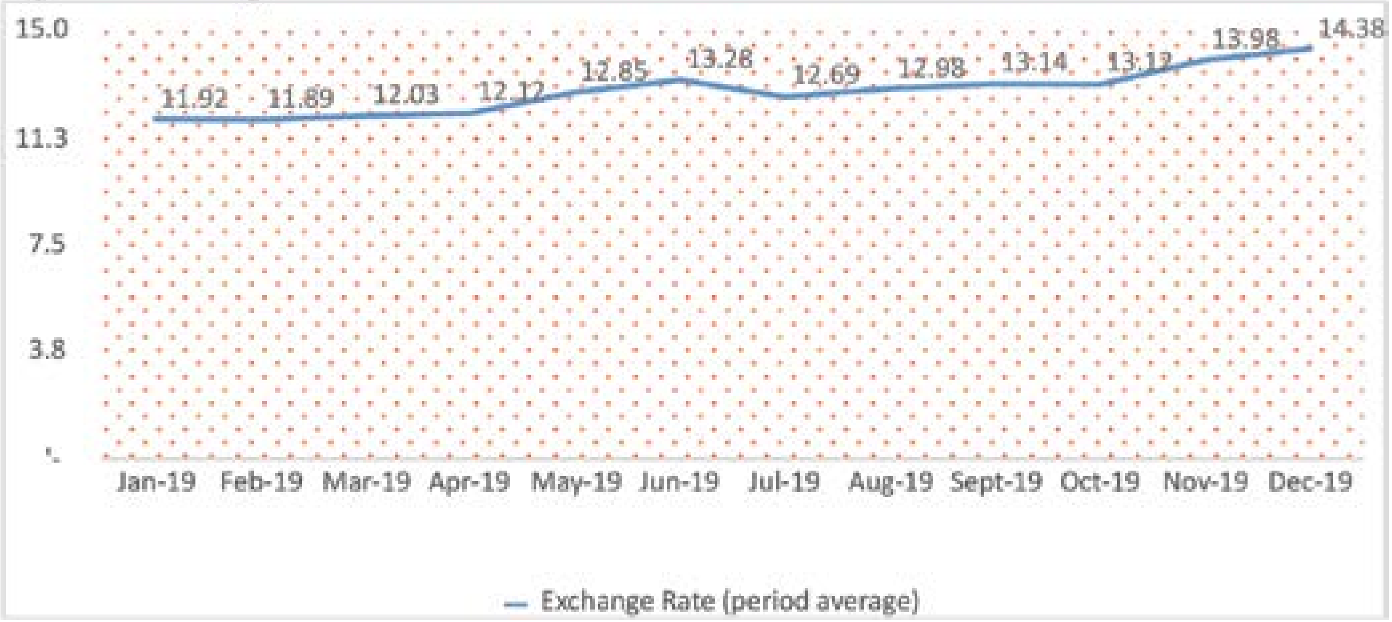


Source: Bank of Zambia

Exchange Rates

The exchange rate of the Kwacha against the US Dollar increased to an average of K12.9 per US Dollar in 2019 from K10.5 per US Dollar in 2018. In relation to the US Dollar, the Kwacha exhibited stability in its performance in the first quarter of 2019, after which it exhibited an increasing trend, with the highest average exchange rate of K14.4 per US Dollar being posted in December 2019 (see Figure 5). The Kwacha depreciated mainly due to the higher demand for foreign currency resulting from increased external debt service obligations. Other factors included low metal production, reduced copper and cobalt prices on the London Metal Exchange as well as the erratic power supply resulting in increased hours of load shedding.

Figure 5: Exchange Rate Movement in 2019



Source: Bank of Zambia

Commodity Prices

During the year, the average price of copper on the London Metal exchange stood at US$6,002.1 per metric tonne. This indicates a reduction of 7.9 percent in the average price of copper when compared to 2018, which was at US$6,519.3 per metric tonne. Similarly, the average price of cobalt fell by 54.6 percent to US$32,760.4 per metric tonne in 2019 from US$72, 226.4 per metric tonne in 2018. The decline in the average prices of copper and cobalt on the London Metal Exchange had a negative effect on the country's trade balance and the performance of the Kwacha against the US Dollar and other major foreign convertible currencies.

The price of crude oil recorded a 10.0 percent decline in its average price, to US$61.8 per barrel in 2019 from US$68.7 per barrel in 2018 (see Table 12).

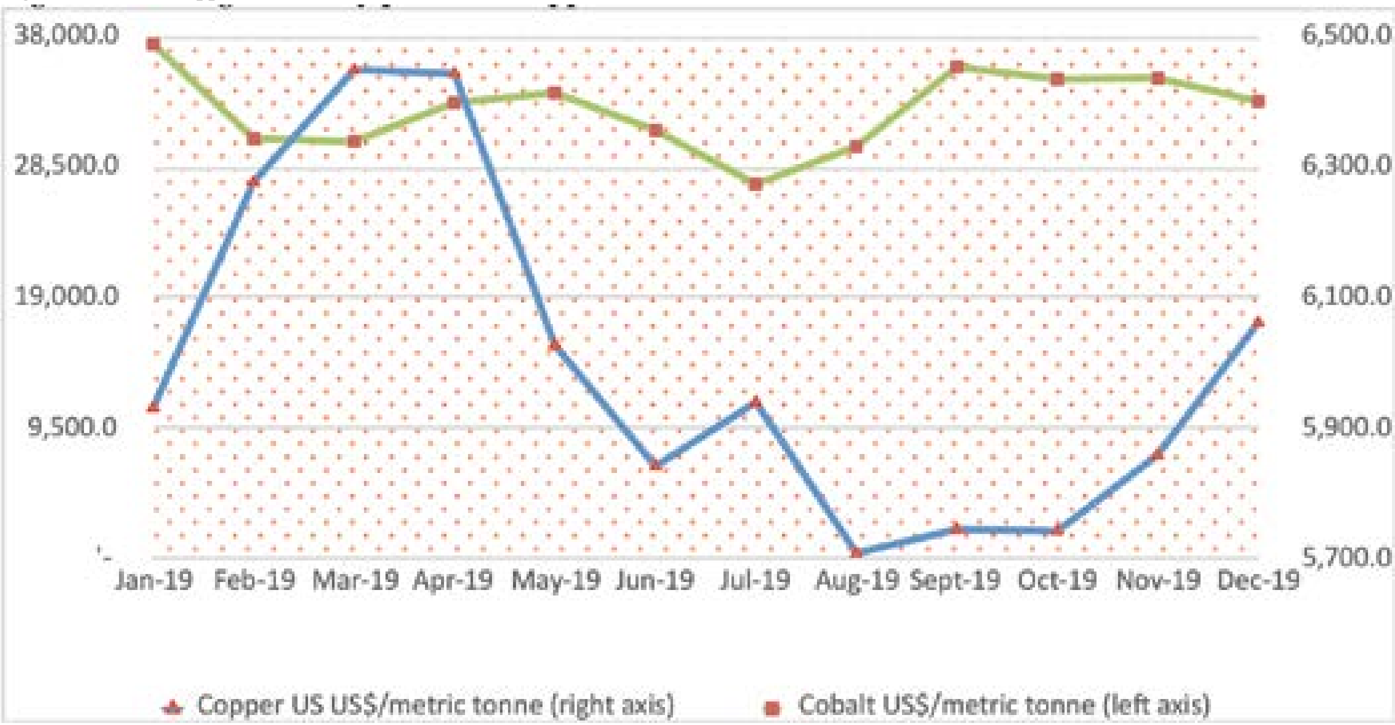
Table 12: Commodity Prices in 2019 and 2018

	Copper US$ per metric tone		Cobalt US$ per metric tone		Crude oil US$ per barrel	
	2019	2018	2019	2018	2019	2018
Average	6,002.1	6,519.3	32,760.4	72,226.4	61.8	68.7
High	6,449.6	7,079.5	37,477.3	89,940.5	69.6	78.0
Low	5,708.0	6,019.2	27,282.0	52,761.4	56.7	55.9

Source: London Metal Exchange and Bank of Zambia

Monthly changes in the average prices of copper and cobalt on the London Metal Exchange for 2019 are shown in Figure 6. The price of copper registered an upward trend in the first quarter of the year before sharply declining in May. On the other hand, the price of cobalt generally fell for a greater part of the year with slight increases in April, May, September and November.

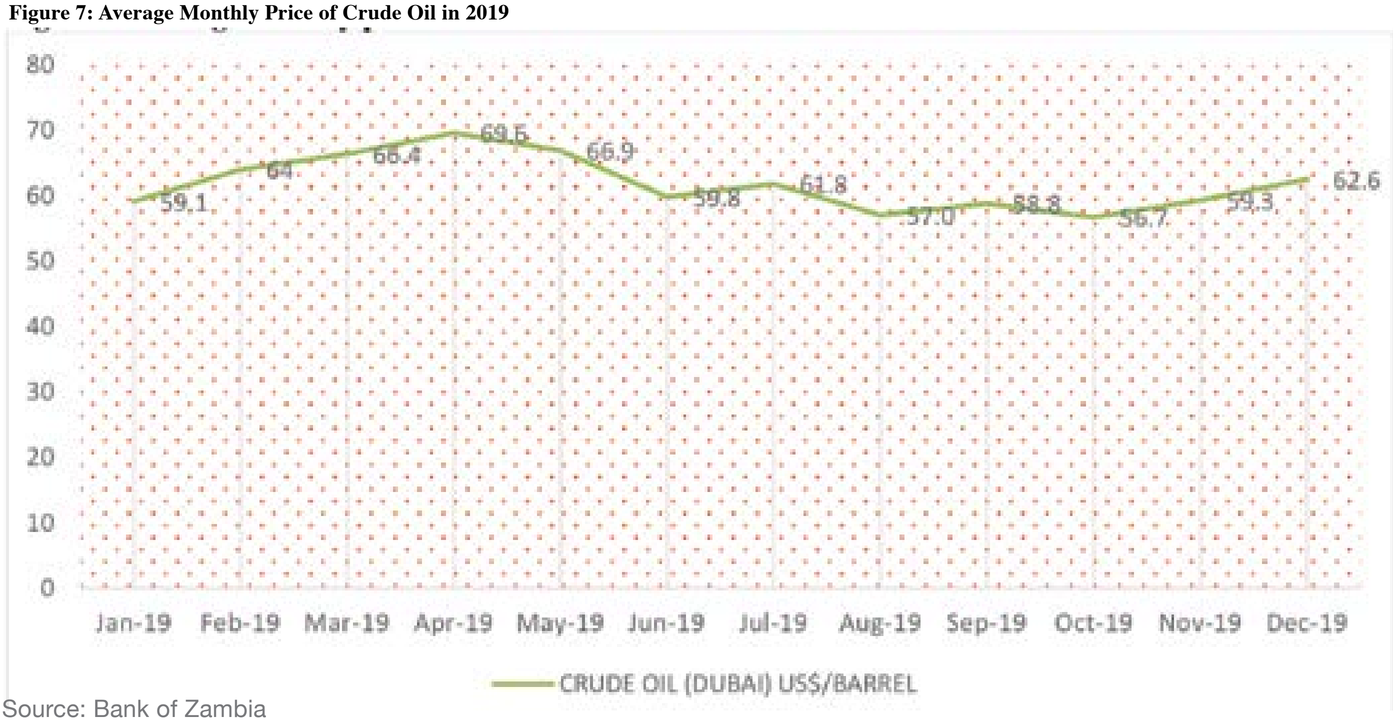
Figure 6: Price of Copper and Cobalt in 2019



Source: London Metal Exchange and Bank of Zambia

In 2019, the average price of crude oil fluctuated from a low of US$56.7 per barrel to a high of US$69.4 per barrel (see Figure 7).

Figure 7: Average Monthly Price of Crude Oil in 2019



Source: Bank of Zambia

OPERATIONAL PERFORMANCE OF THE AUTHORITY

Tax Policy Support

Tax Policy Review Committee

The Tax Policy Review Committee is a multi-institutional committee constituted by the Ministry of Finance every year as the main platform for receiving and analysing tax policy and administrative reform proposals. As part of its mandate, the Authority undertook the following tasks in the Tax Policy Review Committee:

- submitted tax policy and administrative changes in the areas of income tax, VAT and customs and excise and was instrumental in computing the revenue impact of the proposed tax measures;
- prepared layman's drafts of proposed tax legislation; and
- participated in preparing the 2020 National Budget Speech.

Provision of Revenue Data and Information

Statistics plays a cardinal role in improving the ability of the Government to develop appropriate policies and evaluate the performance of the economy. Hence, the increased demand for good quality statistics has brought to the fore the importance of statistics as a strategic resource for national development. The desire for quality statistics by Government is exemplified in the enactment of the Statistics Act No. 13 of 2018. In this vein, the Authority during the year provided revenue, trade and income statistics to Government to enable it make evidence-based decisions about the allocation and management of resources. It is worth noting that the demand for statistics is not only from Government but also from other stakeholders. Notable consumers of statistics generated by the Authority during the year included the Zambia Statistics Agency, the Bank of Zambia, the Zambia Development Agency, research institutions, students and cooperating partners.

In order to ensure accountability and transparency, the Authority provided information on tax revenue performance and other aspects of its operations to the public through press statements and media briefings on a regular basis.

Budget Legislation

Tax legislation forms a significant part of Government's overall legislative programme. The Authority participated in the legislative process by making submissions to, and appearances before the various Committees of the House of Parliament that were scrutinising the Bills for the 2020 Budget that was later presented in September 2019. In this regard, Parliament passed a number of Amendment Acts which included the Property Transfer (Amendment) Act, the Value Added Tax (Amendment) Act; the Income Tax (Amendment) Act; and the Customs and Excise (Amendment) Act.

As part of our taxpayer focus strategy, a well-designed and targeted educational campaign was undertaken to educate taxpayers and the general public on the contents of the 2020 National Budget. The core element of the strategy was to impart information on tax matters in a timely manner to all stakeholders through the distribution of Budget Highlights pamphlets both physically and electronically on our website and other platforms. Other than the Budget Highlights, publications on the website also included the National Budget Speech, the amendment Acts and the Statutory Instruments. Taxpayer service centres were constantly on hand to serve walk-in clients while the call centre attended to phone calls from our clients.

Furthermore, following the presentation of the 2020 National Budget, a number of professional bodies and non-state actors organised post-budget discussions to which the Authority was invited to discuss the impact of the 2020 tax policy and administration measures. The Authority took advantage of these interactions to explain the measures and to disseminate other relevant tax information.

Ministerial and Parliamentary Services

The Authority's mandate requires it to collaborate with other stakeholders in the discharge of its functions. In this regard, the Authority worked closely with a number of Government ministries and agencies. Notable interactions included provision of regular reports to the Ministry of Finance on revenue performance, as well as provision of input into ministerial position papers on tax matters. The Authority also engaged the Government ministries responsible for agriculture, commerce, trade and industry in the development of the Zambia Electronic Single Window platform. Furthermore, the Authority provided input to Parliament through the provision of responses to Parliamentary questions and written memoranda on different subjects requested for by the different Committees of the House, including appearing before them for verbal submissions.

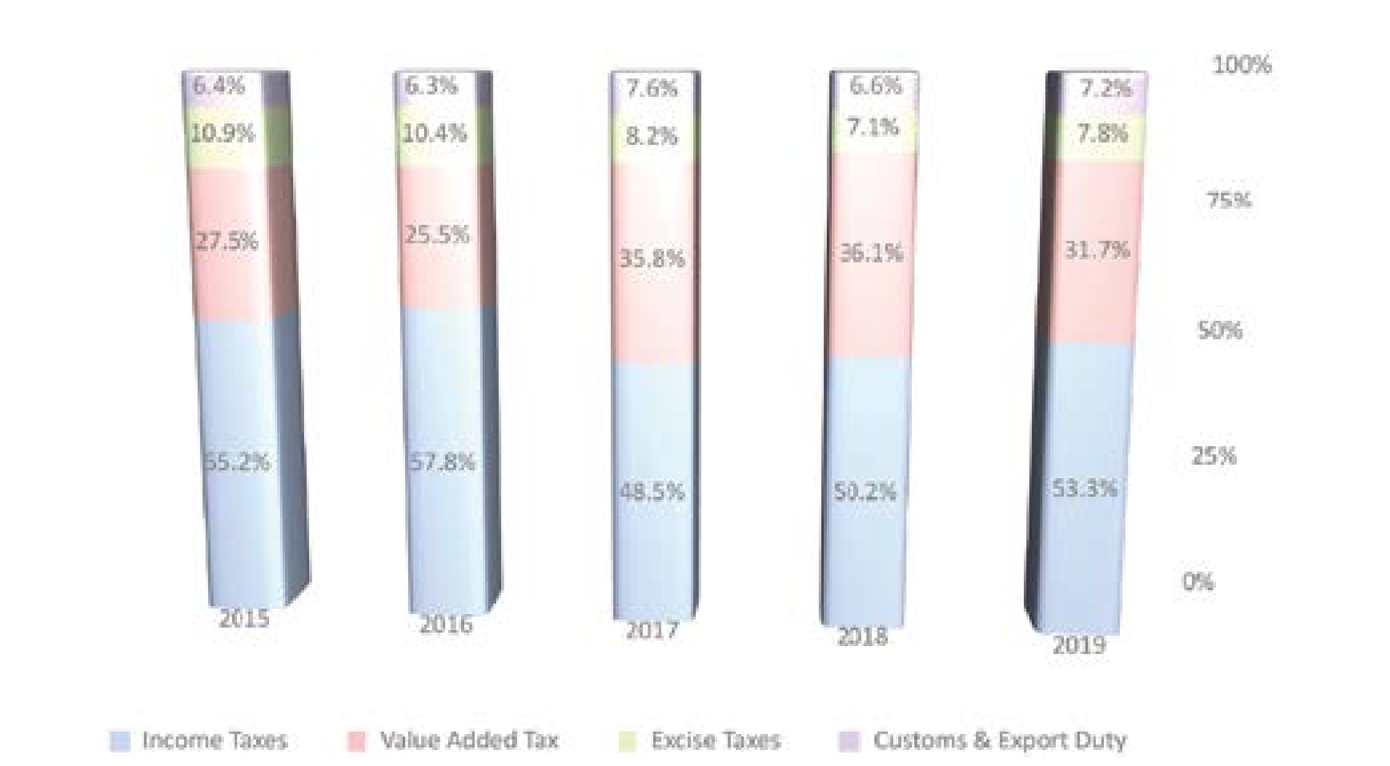
Review of Revenue Performance

Structure of the revenue system in 2019

Over half of the revenue collected in 2019 was attributed to income taxes with a contribution of 53.3 percent. This was seconded by VAT at 31.7 percent. The contribution of excise taxes was at 7.8 percent and that of customs and export duty was 7.2 percent.

This distribution has been similar over the past five years with the contribution of income taxes accounting for an average of 52.3 percent of revenue collections during this period (see Figure 8).

Figure 8: Proportion of Tax Types to Total Revenue 2015 - 2019



A breakdown of income taxes showed that the largest contribution came from PAYE at 41.4 percent. Company income tax and withholding taxes contributed 27.5 percent and 16.2 percent, respectively. The contribution of mineral royalty to income tax fell to 14.9 percent in 2019 from 16.3 percent in 2018.

During the year, the share of domestic VAT in net VAT collections stood at 36.3 percent with the remaining 63.7 percent coming from import VAT. For customs and export duties, 91.5 percent of the total collections were made by customs duty and the share of export duties rose from 0.3 percent in 2018 to 8.5 percent in 2019 mainly due to the introduction of export duty on precious metals and stones.

Tax Revenue Performance in 2019

In 2019, gross taxes collected by the Authority amounted to K63, 844.7 million while K10, 876.1 million was refunded. This resulted in a net tax collection of K52, 968.6 million against a target of K51, 844.2 million, implying that the Authority was 2.2 percent above target with a surplus of K1, 124.5 million. The favourable outturn in net takings was attributed to above-target collections in two out of the three broad revenue categories; local indirect taxes and trade taxes. The overall performance of direct taxes was unfavourable in 2019.

In terms of domestic taxes, direct taxes as a group performed below the target of K28, 356.8 million by K46.6 million or 0.2 percent. On the other hand, indirect taxes recorded a surplus of K264.8 million or 3.1 percent above the target of K8, 507.3 million. The negative performance of mineral royalty and withholding tax with deficits of K702.8 million and K95.9 million, respectively, contributed to the overall negative outturn in direct taxes. However, the good performance of domestic VAT and local fuel levy had a positive impact on the overall performance of indirect taxes.

Revenue collection from trade-based[5] taxes exceeded the set target of K14, 980.1 million by K906.3 million or 6.1 percent. This surplus was explained by the positive performance of import VAT, export duties and import fuel levy which were all above target by K822.9 million, K174.7 million and K319.6 million, respectively. On the other hand, deficits of K53.2 million, K331.1 million, K1.2 million and K25.4 million were recorded in collections of customs duty, import excise duties, carbon tax and motor vehicle fees, respectively (see Table 13).

[5] Administered by the Customs Services Division

Table 13: Tax Revenue Performance in 2019 (K' Million)

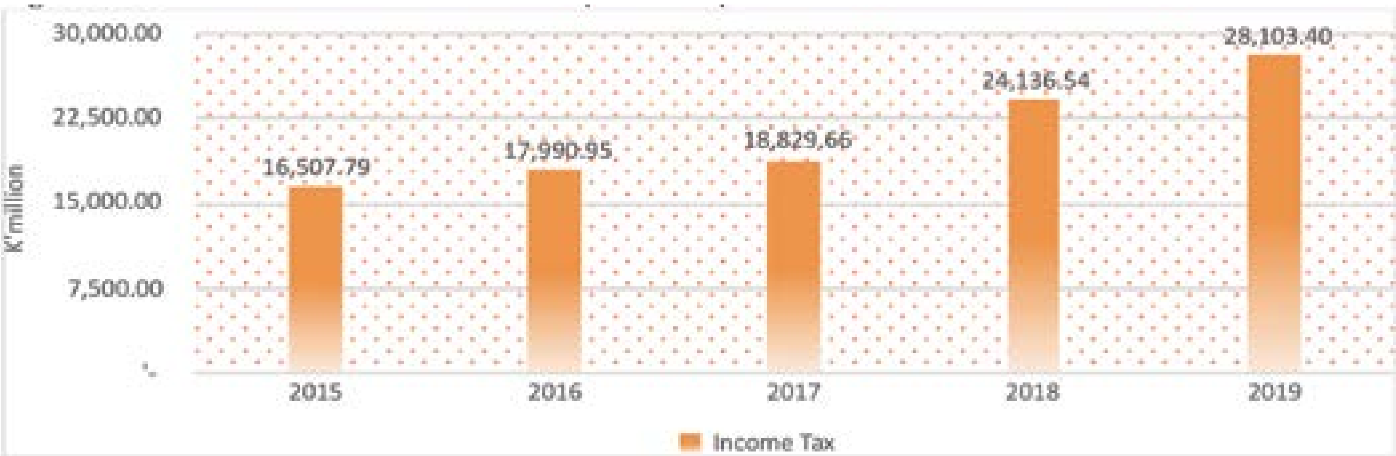
	Actual Outturn	Target	Variance of actual vs. target	Percentage variance of target	Percentage of GDP
Total Revenue	**52,968.6**	**51,844.2**	**1,124.5**	**2.2%**	**17.8%**
Tax Revenue	**52,681.4**	**51,560.5**	**1,121.0**	**2.2%**	**17.7%**
Non-Tax Revenue	**287.2**	**283.7**	**3.5**	**1.2%**	**0.1%**
1. Domestic Taxes Division	**37,082.3**	**36,864.1**	**218.2**	**0.6%**	**12.5%**
A. Direct Taxes	**28,310.2**	**28,356.8**	**(46.6)**	**-0.2%**	**9.5%**
1. Company tax	7,741.3	7,221.6	519.7	7.2%	2.6%
Non Mining Company Tax	4,508.6	4,130.6	378.0	9.2%	1.5%
Mining Company Tax	3,232.7	3,091.0	141.7	4.6%	1.1%
2. PAYE	11,624.5	11,421.0	203.5	1.8%	3.9%
3. Withholding tax & others	4,552.8	4,648.7	(95.9)	-2.1%	1.5%
4. Mineral royalty tax	4,184.8	4,887.6	(702.8)	-14.4%	1.4%
5. Skills Development Levy	185.6	164.0	21.6	13.1%	0.1%
6. Tourism Levy	21.2	13.8	7.3	52.9%	0.0%
B. Indirect Taxes	**8,772.1**	**8,507.3**	**264.8**	**3.1%**	**2.9%**
1. Local Excise Duties	1,917.1	2,732.5	(815.4)	-29.8%	0.6%
2. Local Excise-Cement	101.7	146.5	(44.8)	-30.6%	0.0%
3. Rural Electrification Levy	137.6	166.6	(29.0)	-17.4%	0.0%
4. Local Fuel Levy	470.1	302.2	167.9	55.6%	0.2%
5. Insurance Premium	95.3	108.2	(13.0)	-12.0%	0.0%
6.VAT on domestic goods	6,050.3	5,051.2	999.0	19.8%	2.0%
2. Customs Services Division	**15,886.4**	**14,980.1**	**906.3**	**6.1%**	**5.3%**
1. VAT on imports	10,634.2	9,811.2	822.9	8.4%	3.6%
2. Customs duty (Import tariffs)	3,484.6	3,537.7	(53.2)	-1.5%	1.2%
3. Export duties; o/w	323.8	149.2	174.7	117.1%	0.1%
Export Duty on Maize	-	-	-	0.0%	0.0%
Export Duty on Timber	-	-	-	0.0%	0.0%
Export Duty on Concentrates	323.8	149.2	174.7	117.1%	0.1%
4. Import Excise Duties	789.3	1,120.4	(331.1)	-29.5%	0.3%
5. Import Fuel Levy	512.9	193.3	319.6	165.3%	0.2%
6. Carbon Tax	61.1	62.3	(1.2)	-2.0%	0.0%
7. Motor Vehicle Fees	80.5	105.9	(25.4)	-24.0%	0.0%

The factors underlying revenue performance by tax type in 2019 are discussed in the following section.

Income Taxes

Despite recording an increase of 16.4 percent in income tax collections from 2018 to 2019, the tax was below the set target of K28, 179.0 million by K75.6 million or 0.3 percent in 2019. This unfavourable outcome was as a result of the negative performance of withholding tax and mineral royalty which recorded deficits of K95.9 million and K702.8 million, respectively. The major reason for the underperformance of withholding taxes was the liquidity challenges faced by some firms in the mining and construction sectors during the year, which in turn affected their ability to settle tax liabilities. The deficit in the collections of mineral royalty was premised on the reduced metal production at some mines coupled with longer than anticipated closures of some smelters to facilitate maintenance works and reduced copper price on the London Metal Exchange relative to 2018 (see Figure 9).

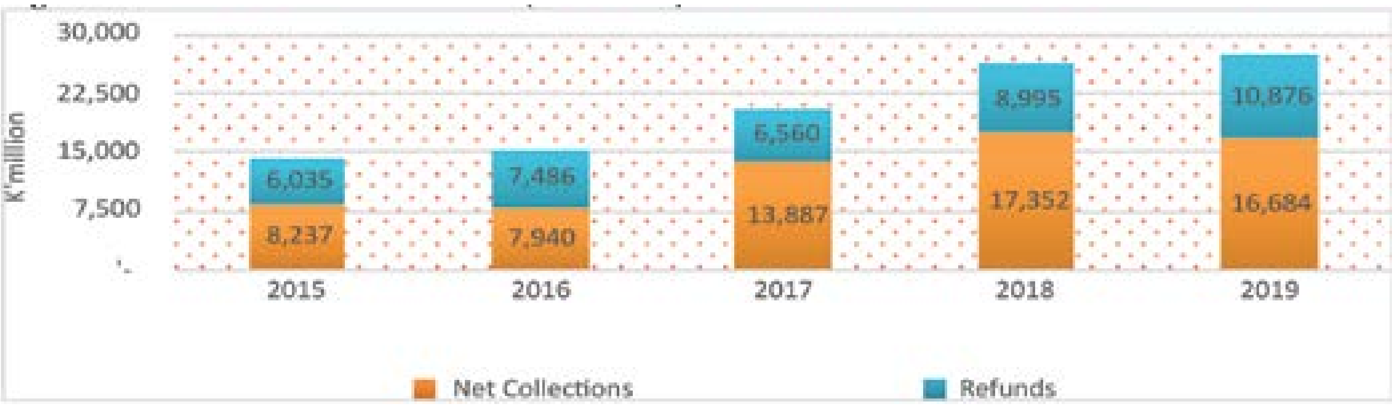
Figure 9: Trend in Income Taxes 2015 - 2019 (K'Million)



Value Added Tax

The net VAT (domestic and import VAT) collections were K1, 822.0 million or 12.3 percent above target. The net VAT collections were K16, 684.4 million against a target of K14, 862.4 million. The surplus was mainly attributed to improved compliance due to effective and regular enforcement activities made on withholding VAT agents and the strict application of VAT refund offsets on indebted suppliers due for refunds. However, there was a 3.8 percent decline in net VAT collections between 2018 and 2019, due to the significant increase in refunds (see Figure 10).

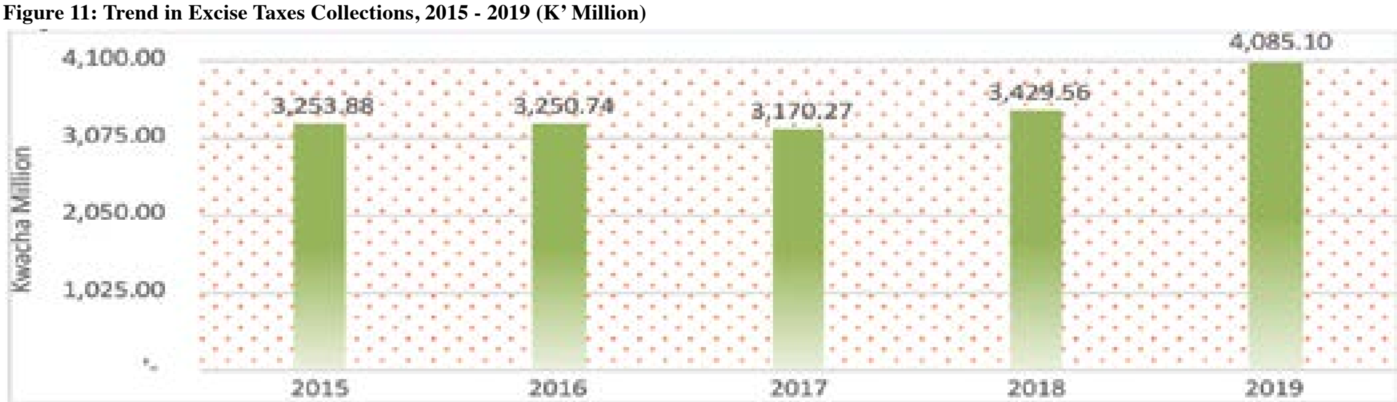
Figure 10: Trend in VAT 2015 - 2019 (K' Million)



Excise Duties

Despite the total increasing by 19.1 percent from the previous year, excise duty collections were below target by 15.5 percent. The general economic slowdown in the country, especially during the second half of 2019 adversely affected excise duty collections. This was exacerbated by the increased electricity deficits during the same period which affected the consumption of some major excisable products. On the import front, a sharp decline was recorded in collections on imports of motor vehicles as the taxable base reduced by 44 percent or K1, 916.2 million in 2019 compared to 2018. This was partly due to the decline in the demand for imported motor vehicles attributable to the depreciation of the Kwacha against major tradable currencies.

Figure 11: Trend in Excise Taxes Collections, 2015 - 2019 (K' Million)



Customs and Export Duties

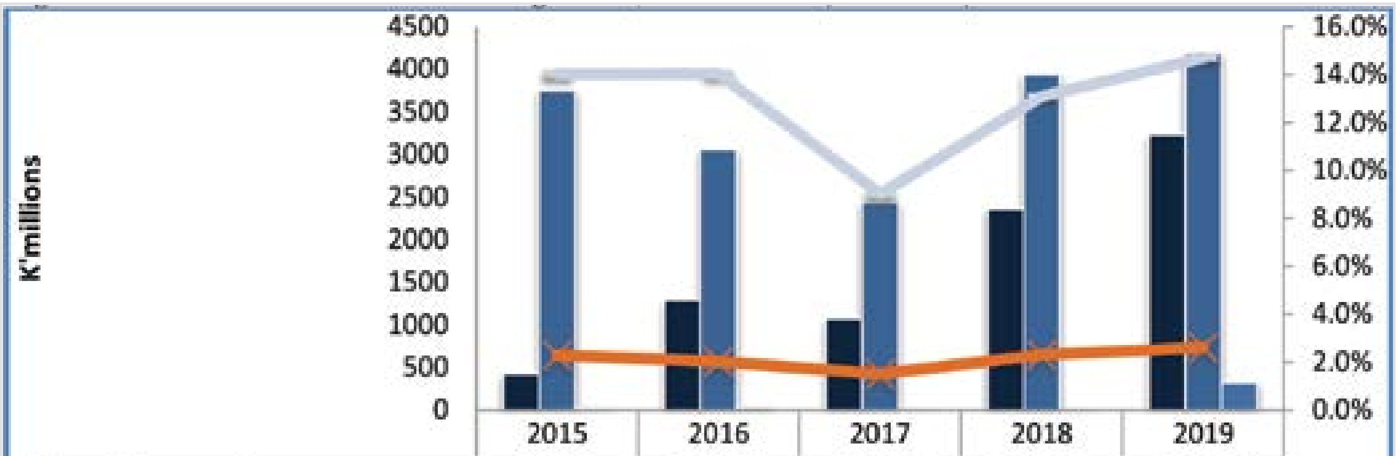
Customs and export duties recorded a combined collection of K3, 808.4 million and were K121.7 million or 3.3 percent above the target of K3, 686.7 million. This positive outturn was mainly driven by higher than projected exports of precious stones and metals; and mineral concentrates. The combined collection from these taxes increased by 20.8 percent in 2019 (see Figure 12).

Figure 12: Customs and Export Duty Collections, 2015 - 2019 (K' Million)

Performance of Mining Sector Taxes

The share of mining revenue as a percentage of total tax revenue collected increased to 14.7 percent in 2019 from 13.1 percent in 2018. More than half (54.1 percent) of all mining revenues collected came from mineral royalty, and 41.8 percent from company tax. The contribution of export duty on mineral ores to mining revenue increased to 4.2 percent in 2019 from 0.1 percent in 2018. As a percentage of GDP, mining tax revenues increased to 2.6 percent in 2019 from 2.3 percent recorded in 2018 (see Figure 13).

Figure 13: Tax Revenues from the Mining Sector, 2015 to 2019 (K' Million)



	2015	2016	2017	2018	2019
Company Tax	418.2	1,289.5	1,067.6	2,356.8	3,232.71
Mineral Royalty	3,749.1	3,053.1	2,435.2	3,936.7	4,184.78
Export Duty	27.5	35.3	6.4	8.6	323.84
Mining Revenue as % of Tax Revenue	14.0%	14.0%	9.0%	13.1%	14.7%
Mining Revenue as % of GDP	2.3%	2.0%	1.5%	2.3%	2.6%

Contribution of Tax Types to GDP

The ratio of total revenue to GDP increased by 0.5 percentage points to 17.8 percent posted in 2019 from 17.3 percent recorded in 2018.

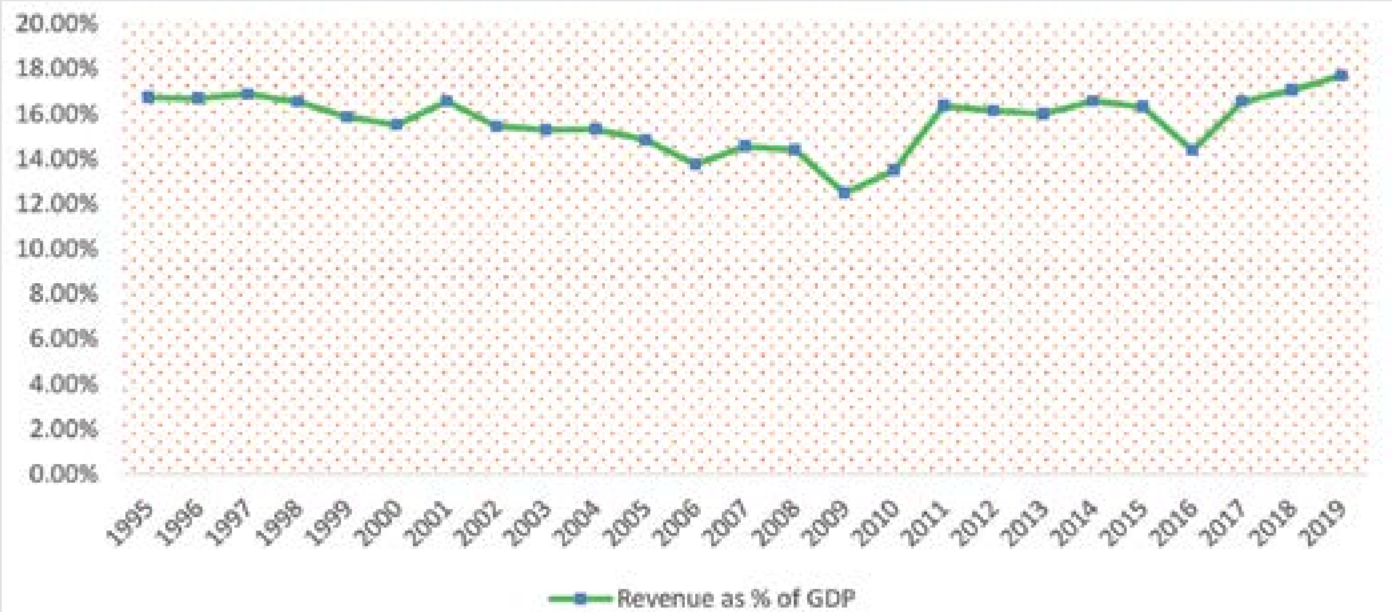
The ratio of indirect and trade tax categories to GDP in 2019 was lower compared to 2018, whilst the ratio of direct taxes to GDP increased to 9.5 percent from 8.7 percent recorded in 2018. In particular, the ratio for indirect taxes decreased to 2.9 percent in 2019 from 3.2 percent in 2018, while the ratio for trade taxes to GDP decreased to 5.3 percent in 2019 from 5.4 percent in 2018 (see Table 14).

Table 14: Total Revenue as Share of GDP in 2019 and 2018

Tax Type	Percentage of GDP	
	2019	2018
1. Domestic Taxes	**12.5%**	**11.9%**
A. Direct taxes	**9.5%**	**8.7%**
Company Tax	2.6%	2.1%
Pay As You Earn (PAYE)	3.9%	3.7%
Withholding Tax	1.5%	1.4%
Mineral Royalty	1.4%	1.4%
Skills Development Levy	0.1%	0.1%
Tourism Levy	0.0%	0.0%
B. Indirect taxes	**2.9%**	**3.2%**
Local Excise Duty	0.6%	0.6%
Local Excise-Cement	0.0%	0.0%
Rural Electrification Levy	0.0%	0.0%
Local Fuel Levy	0.2%	0.2%
Insurance Premium	0.0%	0.0%
Domestic Value-Added Tax (VAT)	2.0%	2.3%
2. Trade Taxes	**5.3%**	**5.5%**
Import VAT	3.6%	3.9%
Import Duty	1.2%	1.1%
Export Duty	0.1%	0.0%
Import Excise Duty	0.3%	0.2%
Import Fuel Levy	0.2%	0.2%
Carbon Tax	0.0%	0.0%
Motor Vehicle Fees	0.0%	0.0%
Total Revenue as % of GDP	**17.8%**	**17.3%**
GDP (K' million)	**297,553.2**	**279,441.2**

The trend of tax revenue to GDP ratios over the last 25 years is depicted in Figure 14. Over this period, the tax revenue to GDP ratio has averaged at 15.6 percent and exhibited a constant linear trend.

Figure 14: Trend in Tax Revenue to GDP ratio 1995-2019



Contribution of Tax Types to GDP

Figures 15 to 22 show the ratio of each tax type to GDP between 1995 and 2019. As shown in the figures, it is evident that income taxes as a proportion of GDP have largely had an upward trend since 1995. Specifically, company income tax and mineral royalty have exhibited upward trends during this period with company income tax peaking in 2012 at 3.4 percent and mineral royalty at its peak in 2015 at 2.0 percent, while PAYE has been fairly stable averaging 3.9 percent of GDP. Withholding tax to GDP was fairly stable between the periods 1997 to 2011 with an average of 0.7 percent, after which it has significantly increased.

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

Figure 15: Company Income Tax as Percentage of GDP, 1995 – 2019

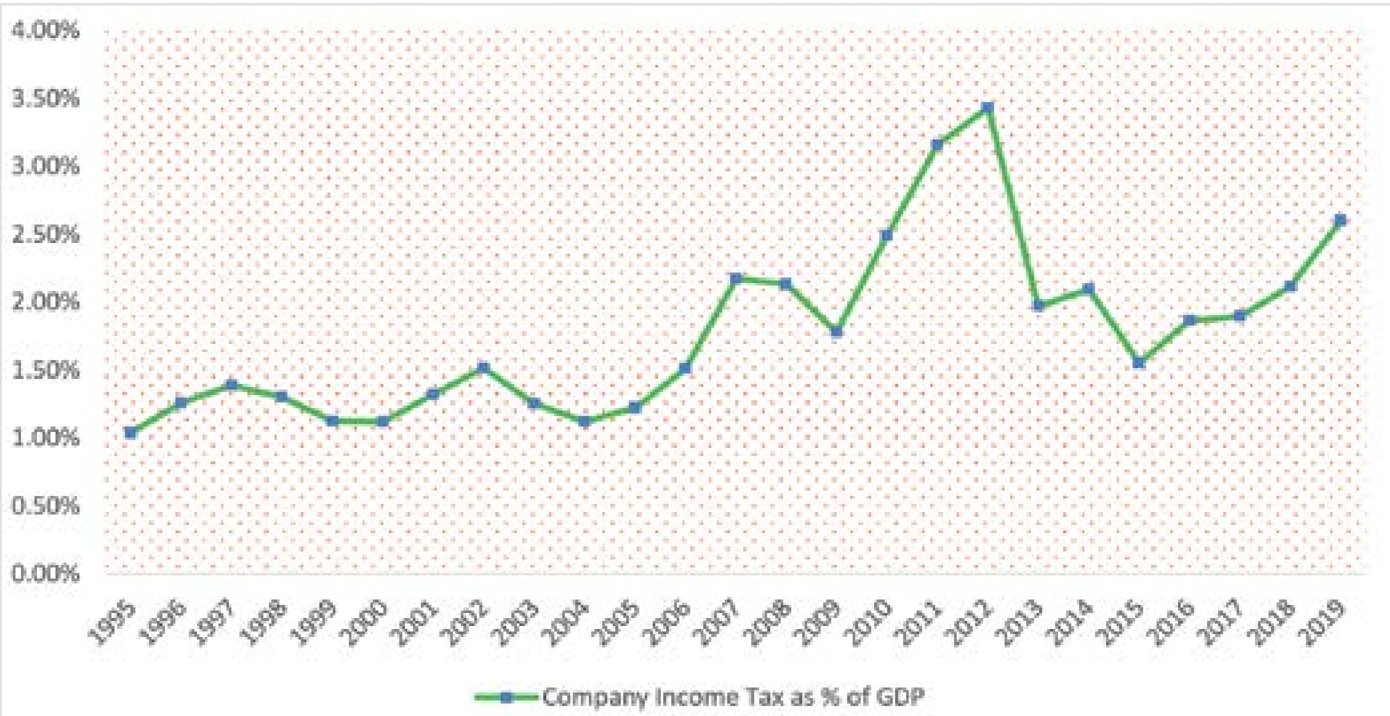


Figure 16: Pay As You Earn as Percentage of GDP ratio 1995-2019

Figure 17: Withholding Tax as Percentage of GDP ratio 1995-2019

Figure 18: Company Income Tax as Percentage of GDP ratio 1995-2019

Figure 19: Mineral Royalty as Percentage of GDP ratio 1995-2019

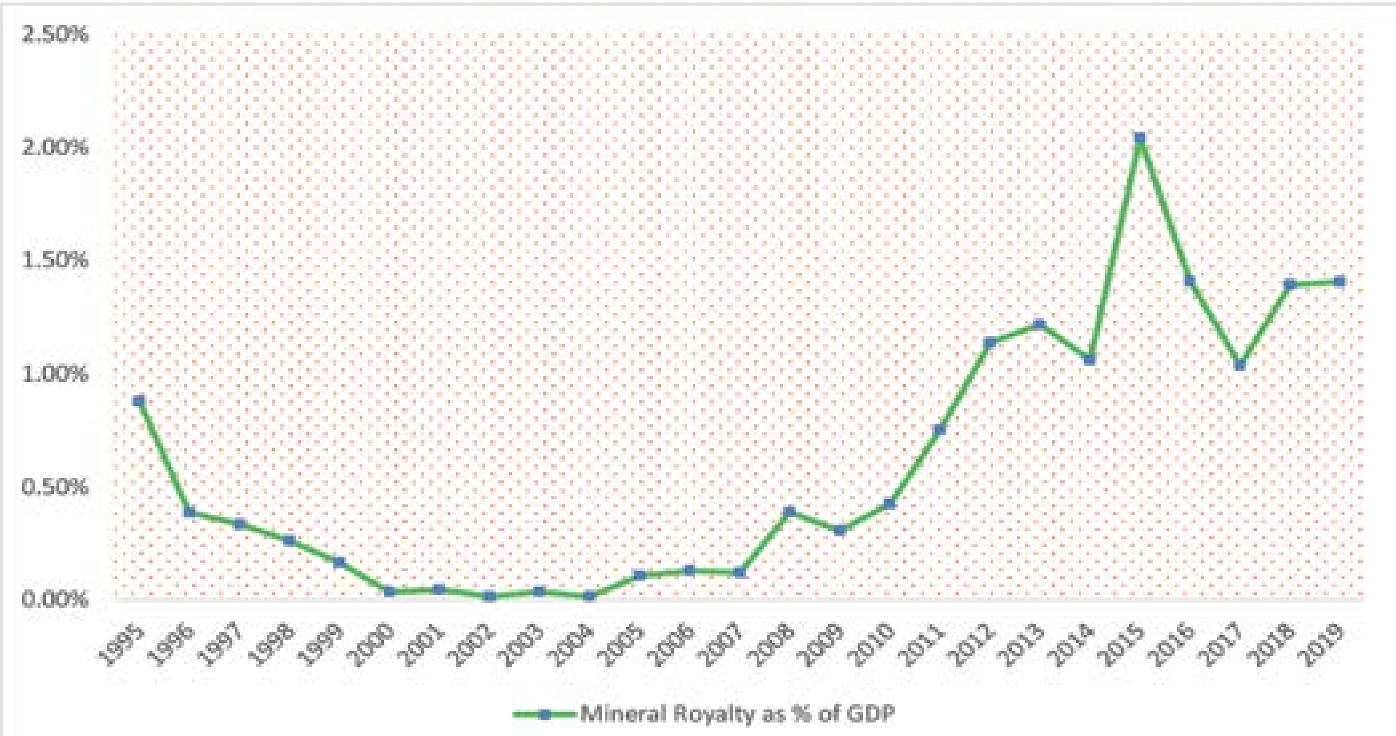
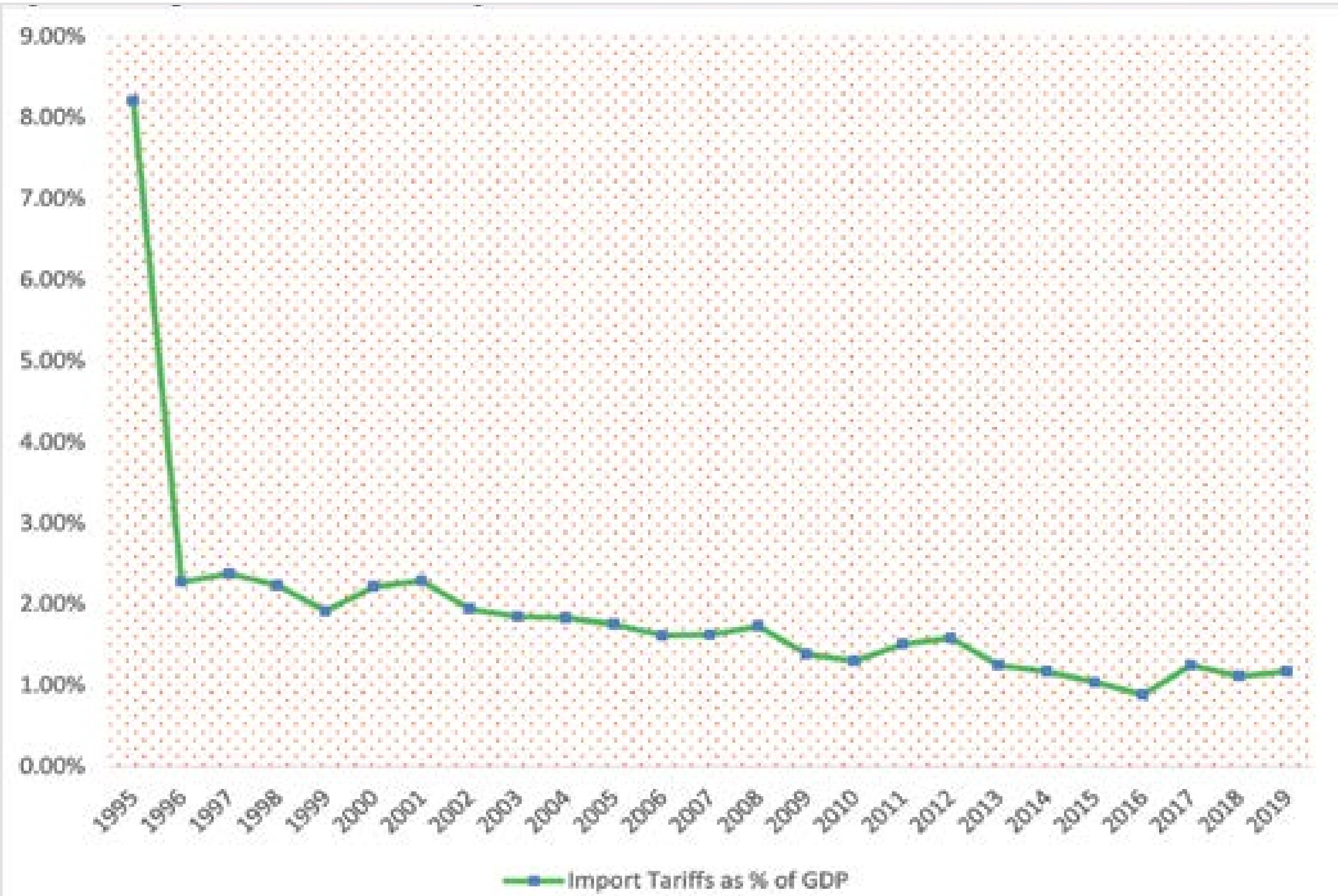
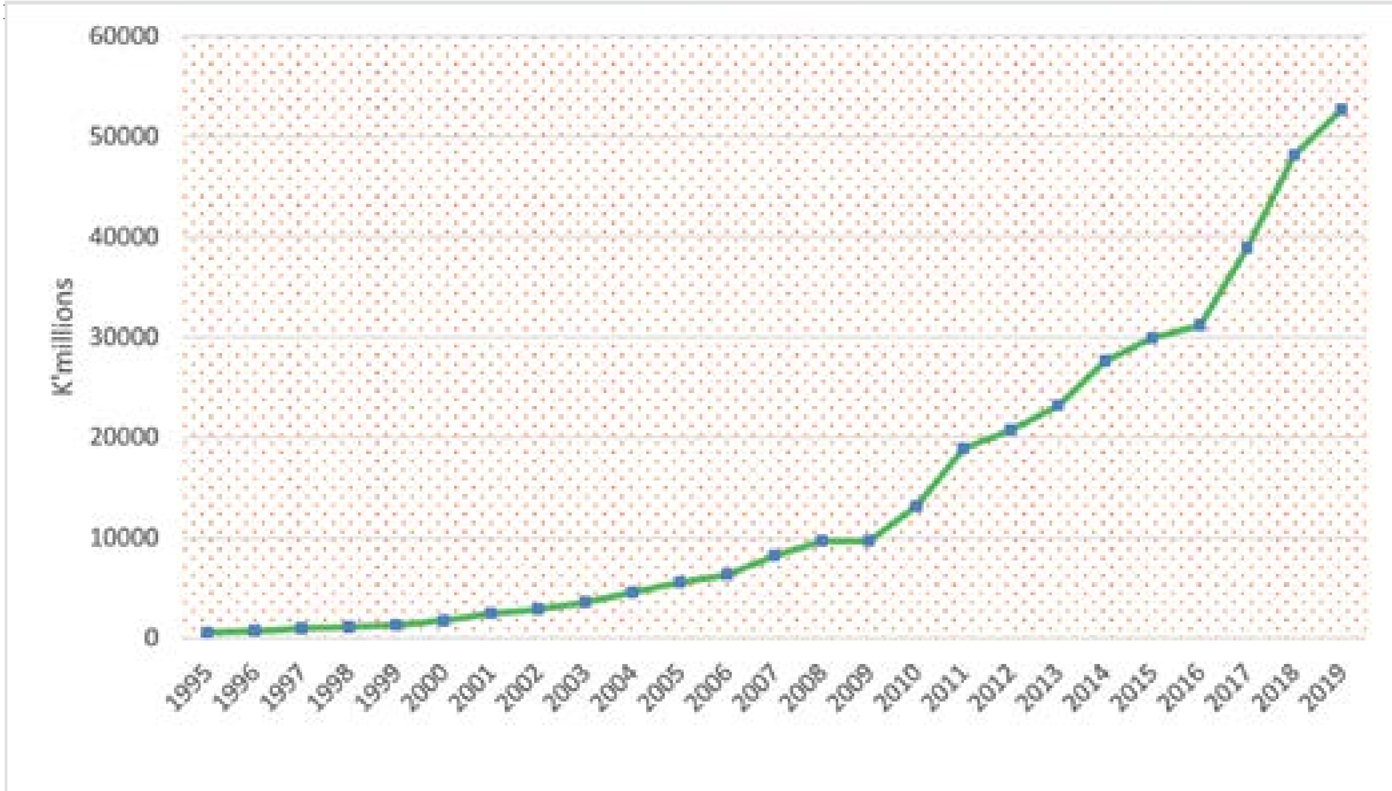


Figure 20: Excise Duties as Percentage of GDP, 1995 - 2019

Figure 21: Import Tariffs as Percentage of GDP, 1995 - 2019





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Performance of Operating Divisions and Corporate Initiatives

Customs Services Division

To improve trade facilitation, the Authority continued to streamline its customs procedures and processes in order to minimise associated costs and enhance operational efficiency.

Customs Declarations

In the year under review, 99.3 percent of the total transactions were assessed compared to 98.9 percent in 2018 representing a marginal increase in the volume of declared entries that reached the assessment stage (see Table 15).

Table 15: Registration to Assessment Conversion Ratio for all Transactions in 2019 and 2018

Period	Assessed	Un-assessed	Total	% Assessed	% Unassessed
2019	789,881	5,940	795,821	99.3%	0.7%
2018	794,414	9,071	803,485	98.9%	1.1%

Customs Refunds

To encourage exports and make them more competitive in the regional and global markets, the Government through ZRA has in place the Duty Drawback Scheme which enables firms to claim back a proportion of import duties paid on inputs used in the local production of goods that end up on the export market. This scheme runs alongside the customs duty refund on qualifying claims that is provided for by law.

The duty drawback claims significantly reduced both in number and value of claims by 43.2 percent and 44.2 percent, respectively. This reduction was partially attributed to the suspension of the scheme to facilitate the review of duty drawback coefficients which was finalized in the year under review (see Table 16).

Table 16: Number and Value of Duty Drawback Applications and General Refunds in 2019 and 2018

	2019	2018	Percentage Variance
Duty Drawback Refunds			
Number of duty drawback applications	162	285	-43.2%
Value of duty drawback applications (K'Mn)	54.2	97.1	-44.2%
Value of processed duty drawback applications (K'Mn)	46.6	43.4	7.3%
Value of duty drawback payments (K'Mn)	28.2	44.6	-36.7%
General Refunds			
	2019	**2018**	**Percentage Variance**
Number of General refunds claims	194	222	-12.6%
Value of General refund claims (K'Mn)	25.0	12.9	93.2%
Value of processed General refund claims (K'Mn)	25.0	12.9	93.2%
Value of General refund payments (K'Mn)	25.0	12.8	94.7%

The number of general refund claims in 2019 reduced by 12.6 percent to 194 from 222 in 2018. Despite the reduction in the number of claims, there was an increase in the value of general refund claims by 93.2 percent to K25.0 million in 2019 from K12.9 million in 2018.

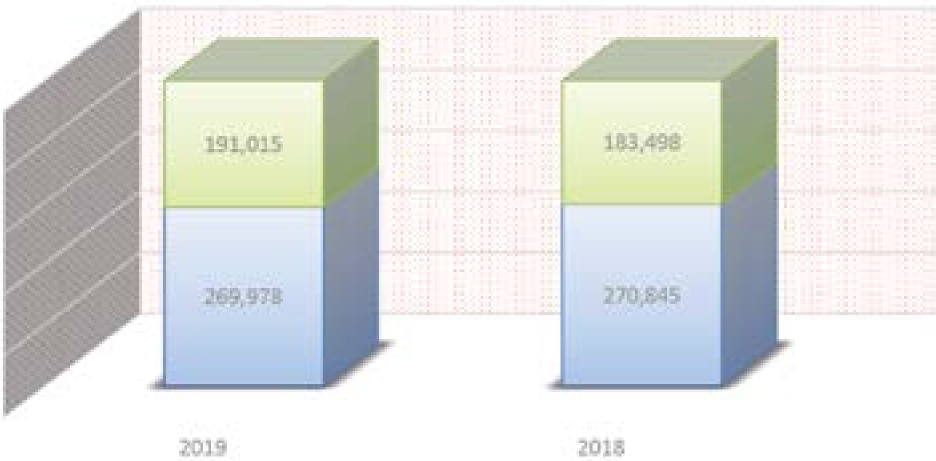
Direct Import and Export Declarations

The volume of permanent import transactions recorded a decrease of 0.2 percent in 2019 whereas the corresponding value for duty purposes (VDP) increased by 12.5 percent partly due to depreciation of the Kwacha against major convertible currencies. Permanent export transactions recorded a growth of 4.1 percent in volume with a corresponding increase in the VDP of 3.6 percent (see Table 17 and Figure 23).

Table 17: Entries of Permanent Imports and Permanent Exports in 2019 and 2018

	2019	2018	Percentage Variance
Number of Import Entries Lodged	269,978	270,485	-0.2%
Value of Import Entries Lodged (K'Million)	108,729.0	96,657.2	12.5%
Number of Export Entries Lodged	191,015	183,483	4.1%
Value of Export Entries Lodged (K'Million)	150,312.4	145,136.1	3.6%

Figure 23: Number of Entries for Import and Exports in 2018 and 2019



Processing Efficiency

In 2019, processing efficiency marginally declined to 96.3 percent from 96.7 percent recorded in 2018. Processing efficiency in this regard measures the actual revenue collected against the potential revenue. The potential revenue in the period under review was K14, 851.6 million of which K14, 308.8 million was collected. Of the uncollected revenue, K451.3 million was registered and assessed while K91.4 million was not assessed (see Table 18).

Table 18: Processing Efficiency in Tax Yield from all Taxable Transactions in 2019 and 2018 (K'Million)

	2019		2018	
	K' Million	%	K' Million	%
Un-assessed Taxes	91.4	0.6%	106.2	0.8%
Registered, Assessed, Not paid	451.3	3%	354.7	2.5%
Registered, Assessed and Paid (Receipted)	14,308.8	96.3%	13,499.5	96.7%
Total Collectable Amount	14,851.6	100.0%	13,960.5	100.0%

The total VDP for both taxable and non-taxable transactions increased to K193, 439.8 million in 2019 from K166, 743.5 million recorded in 2018, representing a 16 percent growth. The non-taxable VDP, on which duty is not collectible, grew by 16 percent to K174, 663.0 million in 2019 from K149, 941.9 million recorded in 2018 and this negatively affected the performance of customs duty collections (See Table 19).

Table 19: VDP and Tax Yield from Taxable and Non-Taxable Transactions in 2019 and 2018 (K' Million)

VDP Type	Value for Duty Purposes			Tax Amount (Gross)		
	2019	2018	% Variance	2019	2018	% Variance
Non-Taxable	174,663.0	149,942.0	16%	27,352.0	25,004.9	9%
Taxable	18,776.8	16,801.4	12%	2,990.7	3,052.4	-2%
Total	**193,439.8**	**166,743.4**	**16%**	**30,342.7**	**28,057.3**	**8%**

In 2019, there was a 43 percent or K2, 674.3 million increase in revenue foregone on account of various trade related concessions from the 2018 level of K6, 219.8 million (see Table 20).

Table 20: Tax Revenue Foregone from Concessions, 2019 and 2018 (K' Million)

	2019	2018	Variance	% Variance
Total Revenue Foregone	8,894.1	6,219.8	2,674.3	43.0%

Risk Profiling Analysis

The Authority continued to employ risk profiling to analyse customs declarations to minimise revenue leakages. From this analysis, 19.2 percent of the entries were directed to the red lane requiring physical inspection, down from 23.2 percent in 2018 while 55.0 percent were directed to the yellow lane requiring documentary check, up from 42 percent in 2018. Furthermore, 8.4 percent were directed to the blue lane requiring post clearance audits while the remaining 17.4 percent of the transactions were directed to the green lane and were therefore not subjected to any scrutiny down from 26 percent in 2018 (see Table 21).

Table 21: 2019 and 2018 Lane Analysis by Business Volume

Lane	2019		2018	
	Number of entries in lane	Percentage	Number of entries in lane	Percentage
Red	148,369	19%	185,633	23%
Yellow	424,875	55%	336,638	42%
Blue	64,864	8%	69,359	9%
Green	134,326	17%	210,206	26%
Total	**772,434**	**100%**	**801,836**	**100%**

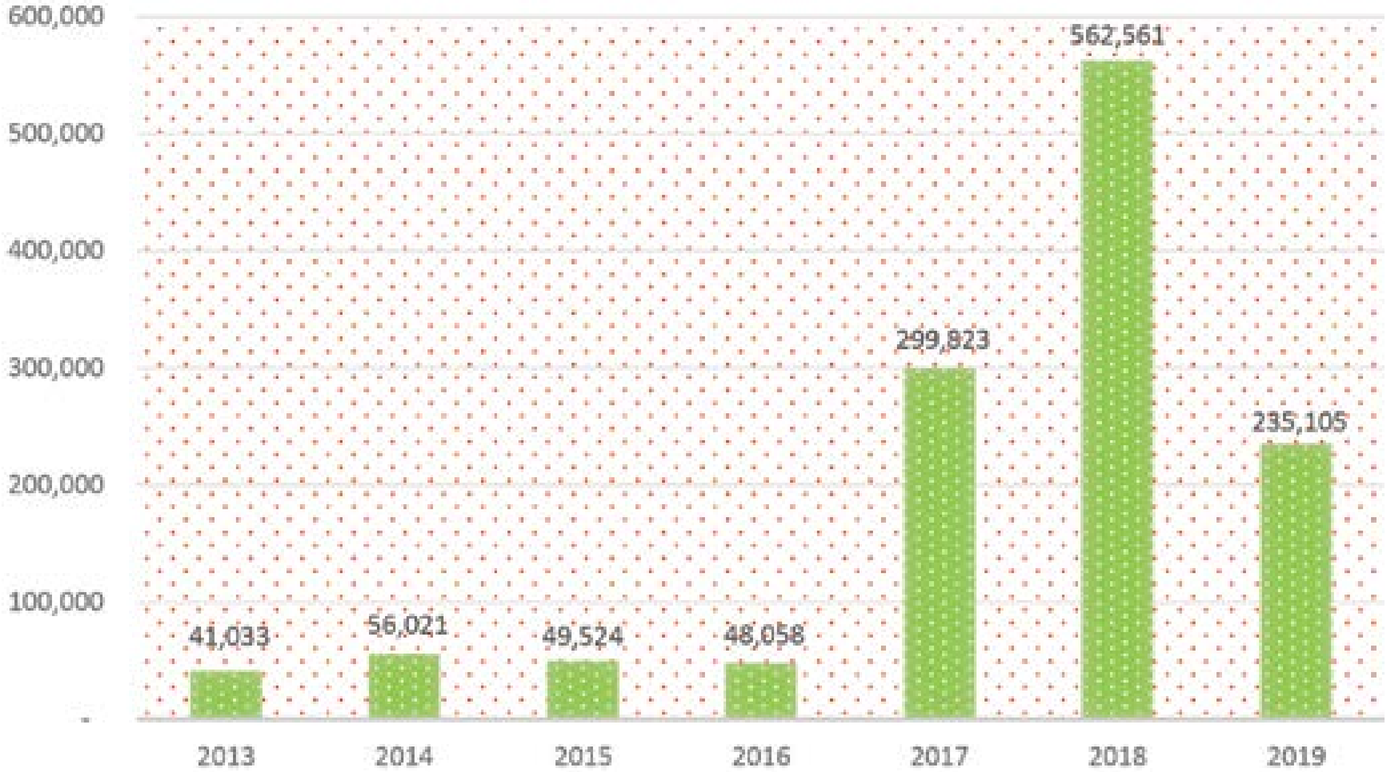
Domestic Taxes Division

Administration of domestic taxes is anchored on four key pillars namely registration, return filing, payment of taxes and enforcement. In achieving these objectives, the Authority conducts taxpayer education to ensure that taxpayers are made aware of their rights and obligations. The following sections present a review of the Authority's performance on these tax compliance pillars.

Tax Registration

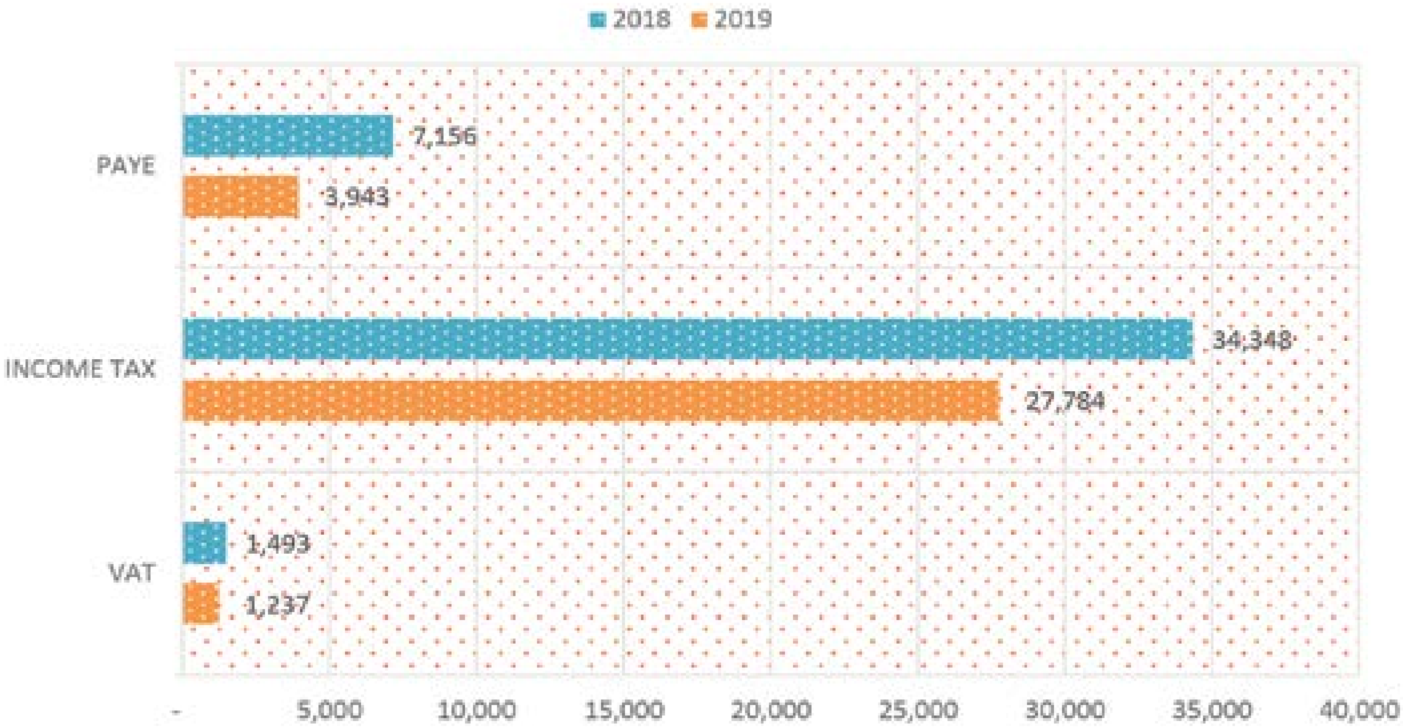
The total number of TPIN registrations declined to 235,105 in 2019 from 562,561 in 2018. The sharp decrease in registrations was largely on account of the exceptionally high number of TPIN registrations in 2018 following the 2017 amendment to the Income Tax Act that required all bank account holders to have a TPIN (see Figure 24).

Figure 24: TPIN Registrations, 2013 - 2019



There was also a decrease in the number of registrations for key tax types during the year. Specifically, there were 27,784 registrations for various income taxes[10] in 2019 compared to 34,348 registrations in 2018; 3,943 PAYE registrations in 2019 compared to 7,156 in 2018; and 1,237 VAT registrations in 2019 compared to 1,493 registrations in 2018 (see Figure 25).

Figure 25: Registrations byTax Type in 2019 and 2018



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

Return Filing

In a bid to streamline its operational efficiency, the Authority conducted a review of the taxpayer register in 2019 with a view of deregistering inactive tax accounts. This resulted in the deregistration of about 95,000 tax accounts that failed to meet the prescribed criteria. The total number of tax accounts at the close of 2019 was 327,675 compared to 388, 647 in 2018. The total number of taxpayers registered for Turnover Tax, Company Income Tax, PAYE, VAT, and other tax types were 111,701; 51,695; 30,997; 15,231; and 118,051, respectively.

A total of 1,254,111 returns were filed for various income taxes in 2019, representing a decrease of 1.6 percent from the 2018 total of 1,306,220. Among the income taxes, turnover tax recorded the highest number of returns filed (see Table 22).

The number of PAYE refund applications received by the Authority increased by 14.2 percent to 8,935 in 2019 from 7,821 in 2018. Further, the number of income tax refund applications registered a 247.0 percent increase to 458 in 2019 compared to 132 applications received in 2018. A total of K88.2 million was refunded in direct taxes; comprising K82.0 million in withholding taxes and K6.2 million in PAYE refunds (see Table 22).

Table 22: Income Tax Return Statistics, 2019 and 2018

	2019	2018	% Change
A. Number of returns submitted: o/w	**457,936**	**422, 671**	**8.3%**
Company tax	34,175	33,791	1.1%
Individuals	15,925	14,987	6.3%
PAYE	273,853	266,977	2.6%
Withholding tax	133,983	106,916	25.3%
Turnover Tax	**796,175**	**883,549**	**-9.9%**
Company	286,577	320,009	-10.4%
Individuals	509,598	563,540	-9.6%
B. Number of refund Applications: o/w	**9,393**	**7,953**	**18.1%**
Employment Tax (Pay As You Earn)	8,935	7,821	14.2%
Income Tax	458	132	247.0%
C. Value of Refunds paid (K' million): o/w	**88.2**	**333.5**	**-73.6%**
Employment Tax (Pay As You Earn)	6.2	61.6	-90.0%
Withholding taxes & others	82.0	57.9	41.7%
Income Tax	0.0	214.0	-100.0%

The number of VAT returns filed decreased to 136,203 in 2019 from 154,198 in 2018. Specifically, the number of nil VAT returns filed decreased by 23.3 percent to 61,129 in 2019 from 79,689 in 2018. On the other hand, the number of repayment returns filed increased by 9.1 percent to 17,966 in 2019 from 18,258 received in 2018.

The total VAT refund claims from returns submitted in 2019 stood at K16, 378 million, up from K13, 772.4 million in 2018. A total of K10, 512.7 million was paid out in VAT refunds during the year compared to K8, 995.4 million paid out in 2018 (see Table 23).

Table 23: VAT Return Statistics, 2019 and 2018

	2019	2018	% Change
A. Number of returns submitted: o/w	**136,203**	**154,198**	**-11.7%**
Payment returns	57,108	58,040	-1.6%
Nil returns	61,129	79,689	-23.3%
Repayment (refund) returns	17,966	16,469	9.1%
B. Value of returns submitted (K' million):			
Payment returns	7,136	7,899.2	-9.7%
Nil returns	0	0	
Repayment (claims) returns	16,378	13,772.4	18.9%
C. Number of Refund Applications:			
Number of Refund Applications	17,966	18,258	-1.6%
Number of Refunds Processed	3,295	4,698	-29.9%
D. Value of Refunds Paid (K' million)	**10,512.7**	**8,995.40**	**16.9%**

Domestic Taxes Audit Performance

In 2019, a total of K725.1 million was collected from tax audits conducted by the Domestic Tax Division. The Large and Specialised Taxpayer Office (both mining and non-mining units) recorded audit yields of K587.4 million which represented 81 percent of total audit yields. Further, audit yields from the Informal Sector and Medium Taxpayer Office amounted to K54.2 million while medium taxpayers under the Indirect Taxes Directorate contributed a total of K83.5 million.

VAT audits yielded a total of K480.0 million, followed by income tax audits at K194.7 million and PAYE audits at K31.0 million. Audit yields from other tax types totalled K19.4 million (see Table 24).

Table 24: Domestic Taxes Audit Yields in 2019

Jurisdiction/Tax type	Audit Yield (K' Million)	Count of assessments
Large and Specialised Taxpayer Office - Non-mining	**464.5**	**225**
Income Tax	153.7	36
PAYE	7.2	33
VAT on domestic goods	296.7	139
Withholding taxes	6.9	17
Large and Specialised Taxpayer Office - Mining	**123.0**	**79**
Income Tax	17.8	7
Mineral Royalty	0.9	28
PAYE	4.2	9
VAT on domestic goods	100.0	33
Withholding taxes	0.1	2
Informal Sector and Medium Taxpayer Office	**54.2**	**2,822**
Income Tax	23.2	314
PAYE	19.6	237
Turnover tax	3.2	2,209
Withholding taxes	8.2	62
Medium Taxpayer Office (Indirect taxes)	**83.5**	**240**
Local Excise Duties	0.1	3
VAT on domestic goods	83.4	237
Grand total	**725.1**	**3,366**

Compliance Initiatives that Support Revenue Collection

The Authority initiated and continued to implement a number of measures to enhance revenue collection and foster compliance. These measures leveraged on the use of internal data, collaborations with external stakeholders and heightened enforcement activities. Some specific measures implemented included:

- The continued implementation of the data matching project to compare consistency of taxpayer declarations across different tax types;
- data exchange with other Customs administrations to enhance compliance and reduce incidences of under-valuation, misclassification and origin fraud;
- use of the Customs Valuation Referencing Database to reduce undervaluation of imports;
- data and information sharing arrangements with strategic partners to gather intelligence.

In order to foster evidence-based formulation of both tax policy and tax administration strategies, a number of research activities were conducted in 2019. These included;

- the Taxpayer Perception Survey with a primary objective to monitor and track taxpayer perceptions towards ZRA service delivery;
- a collaborative study with the International Growth Centre-Zambia titled Scalable Options For Enhancing Compliance among MSMEs with a view to inform strategies on maximising tax collections from informal sector based businesses.

- an evaluation of the tax agents appointed to assist in the administration of withholding tax on rental income;
- cross-matching of motor vehicle database between Road Transport and Safety Agency (RTSA) and ZRA in order to verify tax compliance; and
- the Employee Engagement Survey which focused on factors pertaining to work environment, conditions of service and staff motivation.

Debt Management

Domestic Taxes Debt

The stock of domestic taxes debt stood at K47, 804.3 million as at the close of 2019. The largest share of the debt stock was principal tax amounting to K27, 044.8 million with penalties at K19, 209.7 million and interest at K1, 549.8 million. The 2019 debt stock was 32.2 percent higher than the K36, 166.8 million recorded at the end of 2018 (see Table 25).

Table 25: Composition of Domestic Tax Debt in 2019 and 2018 (K' Million)

Year	Principal	Penalties	Interest	Total
2018	17,247.8	17,359.0	1,560.0	36,166.8
2019	27,044.8	19,209.7	1,549.8	47,804.3

Domestic VAT had the largest share of domestic tax debt with a stock of K24, 807.2 million or 51.9 percent of the total debt. This was followed by Company Income Tax with a stock of K9, 568.5 million and then by PAYE with a stock of K5, 120.1 million. Withholding VAT accounted for K2, 498.7 million; Turnover tax had a total stock of K1, 953.82 million, while Mineral Royalty Tax accounted for K1, 324.5 million. Withholding Tax had K1, 244.9 million, Domestic Excise accounted for K1, 059.2 million while the rest of the tax types had debt below K200.0 million each (see Table 26).

Table 26: Trend in Domestic Debt Accumulation, 2013 - 2019 (K' Million)

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

Customs Debt

The customs debt of K585.3 million at the close of the year increased by 31.4 percent from K445.5 million recorded in 2018 (see Table 27).

Table 27: Trend in Customs Debt Accumulation, 2013 - 2019 (K' Million)

Tax Type	2013	2014	2015	2016	2017	2018	2019
Customs Duty	15.7	45.4	83.9	200.1	961.0	117.7	133.8
Advance Income Tax	1.2	2.1	4.6	24.1	47.7	24.6	26.6
Import excise duty	26.9	44.8	97.6	1.7	424.2	56.7	86.2
Fuel Levy	7.8	23	23	205.4	34.0	34.0	31.9
Export Duty	0	0.2	1.3	46.2	0.4	0.5	36.5
Motor Vehicle Fee	0.8	1.4	1.9	247.1	73.5	3.0	3.4
Carbon Emission Surtax	0.3	0.5	0.5	1.6	27.8	1.1	1.2
Import VAT	32.8	93.7	244.5	435.4	828.3	207.9	255.9
Other							9.8
Total Debt	**85.5**	**211.1**	**457.2**	**827.6**	**2,428.8**	**445.5**	**585.3**

Total Debt Stock

The total tax debt stock increased by 32.2 percent to K48, 389.6 million in 2019 from K36, 612.3 million in 2018. Domestic taxes debt accounted for K47, 804.3 million or 98.8 percent of this stock while K585.3 million or 1.2 percent of the total debt stock was attributable to customs (see Table 28).

Table 28: Total Debt Stock 2013 - 2019

	2013	2014	2015	2016	2017	2018	2019
Total Debt, K' Million: o/w	8,582.1	15,903.9	24,888.0	29,053.2	33,573.5	36,612.3	48,389.6
Domestic Taxes Debt	8,496.6	15, 692.8	24,430.8	28,225.6	31,144.7	36,166.8	47,804.3
Customs Debt	85.5	211.1	457.2	827.6	2428.8	445.5	585.3
Domestic Taxes Debt (% of Total)	***99.0%***	***98.7%***	***98.2%***	***97.2%***	***92.8%***	**98.8%**	**98.8%**
Customs Debt (% of Total)	***1.0%***	***1.3%***	***1.8%***	***2.8%***	***7.2%***	**1.2%**	**1.2%**

Taxpayer Education and Advisory Services

The Authority has in place a Taxpayer Education Strategy which provides guidance on implementing strategies aimed at keeping taxpayers and the general public informed on all matters related to taxation in Zambia. Further, the Authority's Corporate Strategic Plan places emphasis on having satisfied clients. This section presents highlights of the Authority's interactions with its clients during the year.

Workshops

Some of the key stakeholders that were engaged in 2019 include the Zambia Chamber of Commerce and Industry, Cross Borders Traders Association, Zambia Manufacturers Association, Chartered Institute of Transport and Logistics, Engineering Institute of Zambia, Zambia Institute of Architects, Association of Government suppliers and the Zambia Institute of Chartered Accountants. Further, a total of 157 workshops were conducted in Ndola, Kitwe, Kasumbalesa, Livingstone, Chingola, Kabwe, Kafue, Monze, Mazabuka and Lusaka to sensitize taxpayers and the general public on various tax matters

Tax Clinics, Lectures and School Chats

A total of 174 tax clinics were conducted in various locations around the country. These focused on educating members of the public on various tax matters especially those operating in the informal sector. A total of 21 school chats and tax lectures were conducted at universities, colleges, secondary and primary schools across the country.

Television and Radio Programmes

A total of 455 tax programmes were produced and broadcast on television and radio platforms covering various topics. Key topics covered included EFDs, e-services, tax due dates and TPIN registrations.

Trade Shows

The national and provincial trade and agricultural shows present a platform for the Authority to show case some of its innovations and product and also to conduct taxpayer education. In 2019, ZRA participated in three national and 10 provincial trade and agricultural shows. During these shows, various taxpayer services were offered which included on-site taxpayer registrations and the distribution of various tax materials.

Taxpayer Training

The number of taxpayer training sessions conducted in selected towns across the country was 194. The sessions covered topics on the use of e-services such as e-returns, e-payments, e-registration, advance income tax and customs electronic licensing.

Tax Literature

One strategy of educating taxpayers is through the distribution of tax literature at trade shows, workshops, road shows, tax clinics, front offices and other strategic places. In 2019, the Authority continued to distribute literature including Practice Notes, withholding VAT guidelines, fast track TPIN registration leaflets, frequently asked questions, self-assessments for customs, and many others.

A summary of the taxpayer outreach programmes are shown in Table 29.

Table 29: Number of Taxpayer Outreach Programmes in 2019 and 2018

Type of Programme	2019	2018
Workshops/ Seminars	157	176
Open Days	0	9
Tax Clinics	174	202
Radios/ TV programmes	455	744
Agriculture and Trade Shows	13	12
Taxpayer Training	194	306
Lectures/School Chats	21	97
Total	**1,014**	**1,546**

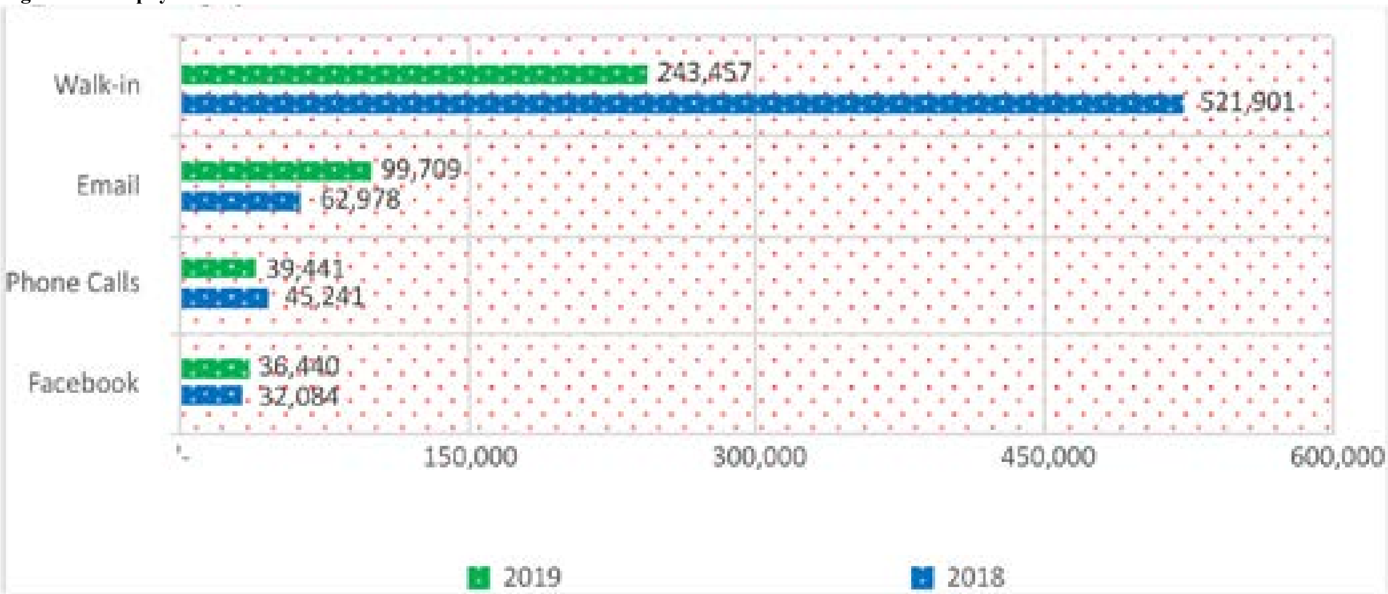
Website and Facebook

The Authority has continued to use the website in enabling taxpayers to access e-services and download tax information thereby improving service delivery and reducing compliance costs. Further, the Authority uses Facebook to interact with taxpayers and the general public. In 2019, the number of followers on the ZRA Facebook page increased to 36,440 from 32,084 in 2018.

Taxpayer Contact

In 2019, a total of 243,457 walk-in contacts were made by taxpayers with the Authority through the taxpayer service centres and the Advice Centre, compared to 521,901 in 2018. The reduction in walk-in clients was attributed to the increased uptake of e-services following the simplification of the TPIN registration process and automation of the application for Tax Clearance Certificates. A total of 99,709 emails were received and responded to in 2019 compared to 62,978 in 2018. In addition, 39,441 taxpayer phone calls were received through the Call Centre compared to 45, 241 in 2018 (see Figure 26).

Figure 26: Taxpayer Contact in 2019 and 2018



In addition, the National Call Centre received a total of 45, 241 phone calls compared to 46, 492 in 2017 and the Interactive Voice Response system successfully resolved 181, 489 queries. The most frequent topics of inquiry were the withholding VAT mechanism, EFDs, TPIN requirement for bank account holders and withholding tax on rent.

Non-Compliance and Prosecution

The establishment of the ICE Unit has enhanced the Authority's compliance and enforcement activities. Strategies employed included use of intelligence, risk profiling and random patrols. Offenders were dealt with in accordance with the laid down administrative sanctions in the tax law while others were prosecuted.

Investigations

The number of cases investigated by the Authority in 2019 was 614 out of which 445 cases were brought forward from 2018. As at the close of the year, 115 cases were concluded while 499 cases were carried forward to 2020.

MANAGING PUBLIC CONFIDENCE

Managing Public Confidence

Staff Integrity

During the year under review, the ZRA Integrity Committee (ZRAIC) engaged more than 800 members of staff and more than 400 stakeholders on matters of integrity. Engagements were carried out in the form of inductions, orientation, internal awareness programmes as well as training in customer service and customs basics. Newly appointed focal point persons were also trained in integrity matters.

The Authority also hosted the African Tax Administration Forum (ATAF) Integrity Assurance Workshop, designed to bring together Integrity champions across tax administrations in Africa to discuss and share experiences on how best to counter integrity breaches and stop tax revenue haemorrhage in Africa.

The Authority commemorated the integrity month in September under the theme My Integrity Matters as a means of enhancing integrity in the Authority. The Authority also participated in the commemoration of the International Anti-Corruption Day under the theme United Against Corruption. Further, the Integrity Committee commenced the Corruption Vulnerability Assessment in collaboration with the Anti-Corruption Commission (ACC). This is a seven step process of assessing systems and processes within an institution for vulnerability to corruption so as to recommend remedial measures that can seal the identified loopholes.

Comments and Complaints

The number of comments and complaints received in 2019 increased to 65 from 32 recorded in 2018. The increase is attributed to an increased number of process queries where taxpayers use the ZRA Integrity Committee email to follow up on delayed assessments, VAT refunds and TPIN registration matters. The complaints and comments were received through various channels such as letters, email, phone calls and suggestion boxes which are mounted in all stations (see Table 30).

Table 30: Number of Complaints and Comments Received by ZRAIC in 2019 and 2018

Year	Complaints	Comments	Total
2019	8	57	65
2018	2	30	32

The breakdown of the types of comments and complaints received in 2019 and 2018 is shown in Table 31.

Table 31: Types of Comments and Complaints Costs in 2019 and 2018

Taxpayer Feedback	2019	2018
Compliments	2	2
Information	16	26
Queries	31	4
Suggestions	0	0
Employment Applications	8	0
Complaints	8	2

Minimising Compliance Costs

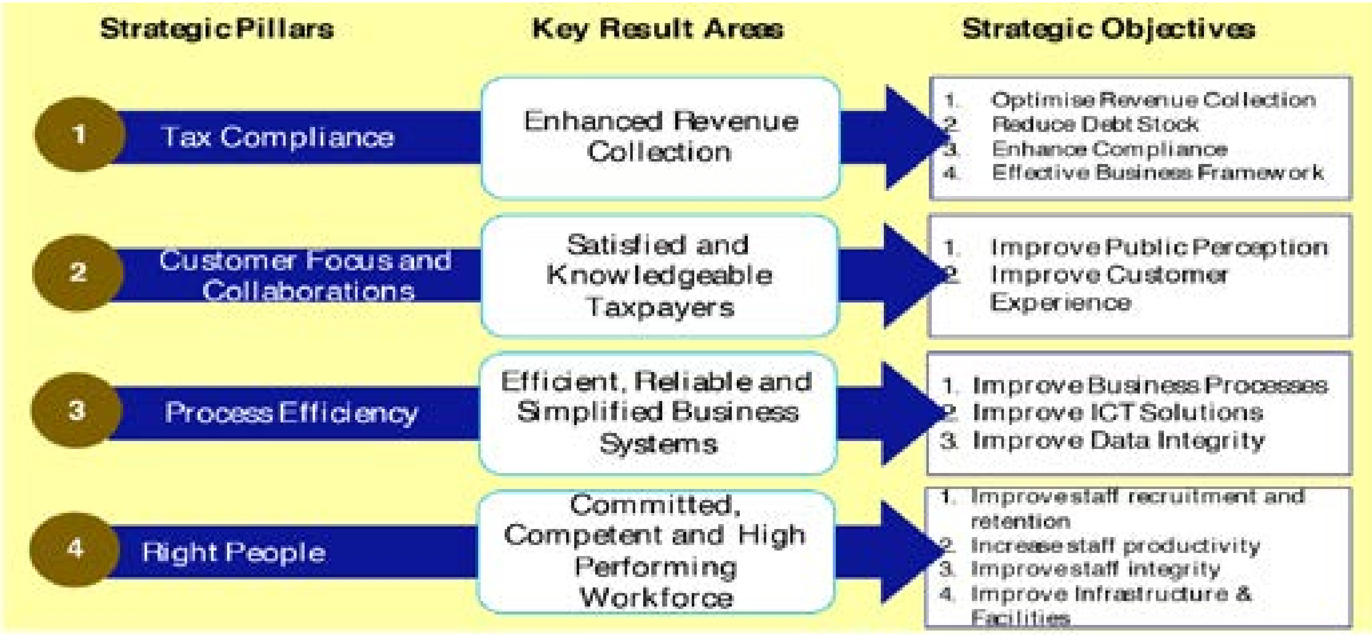
The Authority rolled out the TaxOnPhone application which is a USSD based platform that enables taxpayers to access ZRA e-services using a mobile phone or similar device without the need for internet connectivity. At the end of the year, the application was able to facilitate tax registrations and filing of tax returns

STRATEGIC PERFORMANCE OF THE AUTHORITY

Strategic Performance of the Authority

The Authority has in place a Corporate Strategic Plan (CSP) 2019 – 2021 that is anchored on the following Strategic Pillars, Key Result Areas (KRA), and Strategic Objectives (SOs) as depicted in Figure 27.

Figure 27: Strategic Pillars, Key Result Areas and Strategic Objective



The Governing Board continued to monitor the implementation of the Corporate Strategic Plan and the following are highlights of the results under each of the four Key Result Areas.

a) KRA 1: Enhanced Revenue Collection

The Authority set out to achieve this Key Result Area by optimizing revenue collection, reducing debt stock, enhancing compliance, and implementing an effective business framework for indirect taxes. Under this KRA, 63 percent of the KPIs were attained resulting in achievement of 50 percent of the Strategic Objectives. However, 31 percent of the KPIs were not achieved while 6 percent were partially attained.

b) KRA 2: Satisfied and Knowledgeable Taxpayers

The Authority achieved 100 percent on both strategic objectives and KPIs under this KRA. According to the Taxpayer Perception Survey, 75 percent of taxpayers had a favorable perception of the Authority and were satisfied with the Authority's services.

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

Under this KRA, 86 percent of the KPIs were fully met while 14 percent were partially met. The Authority met 9 out of the 13 standards in the Taxpayer Charter. The risk management framework implementation was at 95 percent. Uptime for core applications and networks stood at 98 percent leading to high systems availability. Software upgrades were about 45 percent out of the targeted 90 percent. The data cleaning exercise gained momentum with over 100 percent of the targeted cases cleaned.

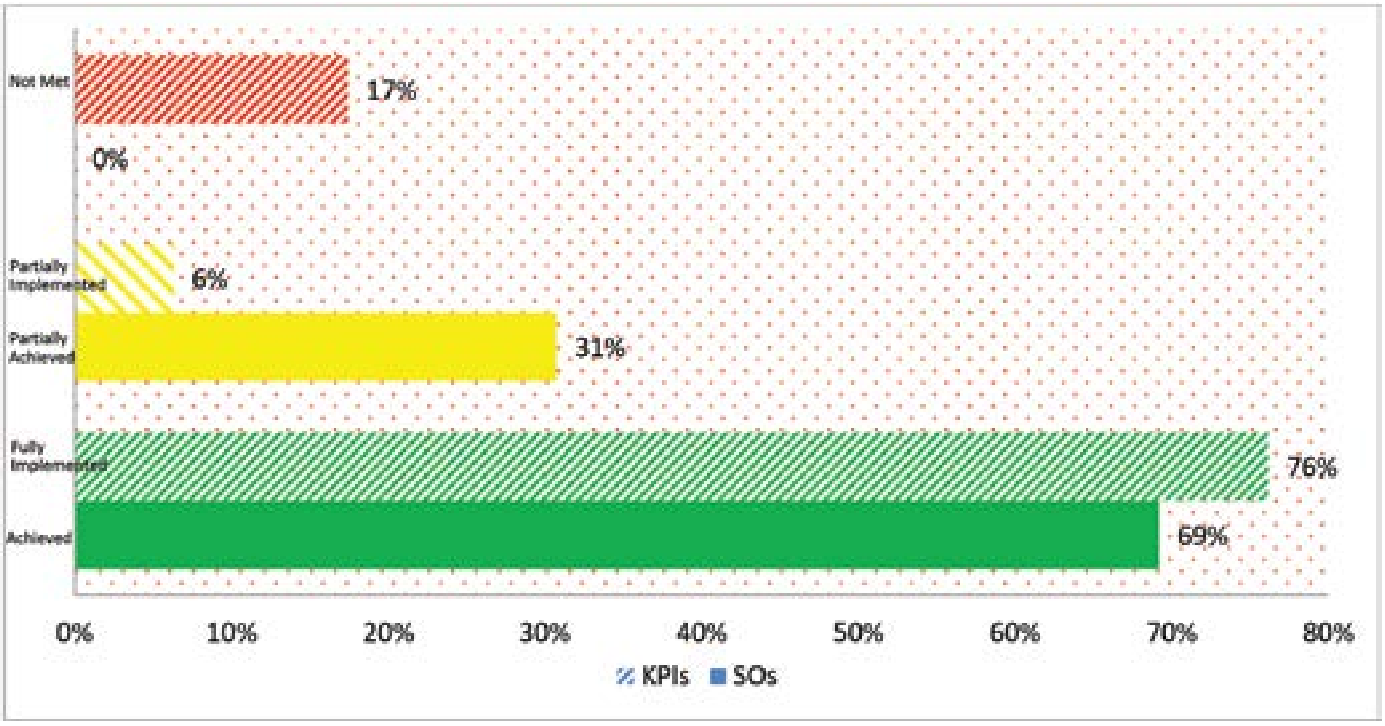
d) KRA 4: Committed, Competent and High Performing Workforce

The Authority achieved 75 percent of Strategic Objectives under this KRA. The headcount was at 1,960 or 98.2 percent of the approved staff establishment. Attrition rate was 6.4 percent of the total establishment. As at end year, about 99.7 percent of staff met or exceeded their performance objectives for the year. Further, the Employee Satisfaction Survey indicated that 74 percent of staff were satisfied in their current roles. The Authority dismissed 31 employees in 2019 due to unethical conduct compared to 13 in 2018.

Performance of the Corporate Strategic Plan

With regard to the performance of the Corporate Strategic Plan, 76 percent of the KPIs were fully implemented, 6 percent were partially implemented, and 17 percent were not met. This resulted in the achievement of 69 percent of the Strategic Objectives while 31 percent were partially achieved (see Figure 28).

Figure 28: Overall Implementation of Corporate KPIs



INTERNAL AND EXTERNAL SCRUTINY

Internal Audit

During the year, a total of 31 audits were finalized which included 19 audits carried forward from 2018. A total of 27 reports were tabled before the Audit Committee (see Table 32).

Table 32: Audits and Investigations Undertaken in 2019 and 2018

Audits and Investigations	2019	2018
Number of planned audits	21	25
Number of special reviews and investigations and audits finalised	12	15
Number of audits in progress	9	10
Number of 2018 audits finalised in 2019	19	11
Number of audit reports tabled before the Audit Committee	27	29

Internal Affairs

In 2019, a total of 67 cases against ZRA officers were recorded compared to 64 cases recorded in 2018. The cases recorded bordered on fraud allegations, malpractices and misconduct. The unit recorded more cases through enhanced intelligence gathering skills and special operations conducted in selected regions (See Table 33).

Table 33: Cases of Allegations of Fraud and Misconduct by Employees in 2019 and 2018

Offence	2019	2018
Fraud	3	2
Dishonest Conduct	38	25
Theft	1	1
Bribery/Corruption	7	6
Abetting smuggling/collusion	15	21
Other	3	9
Total cases investigated	**67**	**64**

Out of the 67 cases recorded, 34 were recommended for disciplinary action leading to 24 officers being dismissed while others were given lesser sanctions such as written warnings. Four cases were recommended to Customs Services Division for the collection of taxes while three other cases were recommended for prosecution of the clearing agents and the importers for their role in defrauding government.

A number of interceptions were made during special operations carried out in Central, Eastern, Muchinga and Southern Provinces. Interceptions made revealed under declared, smuggled and undervalued goods which were handed over for re-inspection and valuation, while other matters of suspected malpractices by officers were referred to the Investigations Department for further action.

External Scrutiny

Parliamentary Committees

Parliament oversees Government administration and subjects its activities to detailed scrutiny on behalf of the electorate. This is done through the established parliamentary committees that scrutinize defined areas of Government administration and ensure that the Executive is accountable to Parliament.

In this regard, the Authority was in 2019 subjected to parliamentary scrutiny through appearances before the Budget Committee, the Public Accounts Committee and the Committee on National Economy, Trade and Labour Matters, among others. In addition, the Authority submitted reports to the various Committees of the House and provided written responses to a number of parliamentary queries raised by Members of Parliament.

Auditor General

The Office of the Auditor-General exists to strengthen accountability and transparency in the public sector through provision of quality audit services and thereby build public confidence. During the year, the Authority was subjected to one audit by the Office of the Auditor General. The audit covered tax revenue collection activities for the year ended 31 December 2018. Arising from this audit, 16 queries were raised in the Tax Revenue Collection audit report. The Authority managed to close eight queries during the year while the other eight were still being attended to as at the end of December 2019.

The Authority rigorously followed up the audit queries during the year resulting in the closure of all prior years' audit findings upon verification of implementation. As a result, eight audit queries were closed pertaining to the year ended December 2017 and another eight from the period 2009 to 2015.

Litigation

Litigation provides a means for settling disputes between the Authority and taxpayers as well as help to clarify the law to guide future actions. Litigation is therefore a key compliance tool as litigation outcomes are used by others to guide their own conduct. In its quest to enhance compliance, the Authority in 2019 handled several civil and criminal matters in various courts of law.

Civil Litigation

The number of civil cases litigated by the Authority in 2019 was 88 compared to 74 in 2018, representing an increase of 18.9 percent. From the cases litigated during the year, 14 were before the Supreme Court; 3 were before the Court of Appeal; 25 were before the High Court; 31 were before the Tax Appeals Tribunal while 15 were before the Industrial Relations Court (See Table 34).

Table 34: Tax Related Litigation in 2019 and 2018

Type of Court	2019	2018	% Change
Supreme Court	14	17	(17.6)%
Court of Appeal	3	3	0.0%
High Court	25	24	4.2%
Tax Appeals Tribunal	31	20	55.0%
Industrial Relations court	15	9	66.7%
Magistrates Court	0	1	-
Total Cases	**88**	**74**	**18.9%**

In terms of litigation by tax type, a total of 31 cases or 35.2 percent were related to customs and excise, while 21 cases or 23.9 percent related to direct and indirect taxes. The labour related cases were 25 or 28.4 percent and 11 cases or 12.5 percent were general civil cases.

The total number of cases concluded during the year was 24 out of which 19 were concluded in favour of ZRA while five were against. As at the end of the year, a total of 27 cases were active in the various courts and at the Tax Appeals Tribunal.

Criminal Litigation

The Authority handled 29 cases during the year, out of which 23 were customs related while 6 were domestic taxes related. The number of cases concluded was 15, out of which 10 convictions were secured, one was acquitted, two were referred for further investigations and two cases were withdrawn. It is worth noting that the total number of cases prosecuted in 2019 increased by 7 percent compared to 2018 due to increased focus on criminal prosecution for tax offences. As at end of the year, 13 cases were under litigation and one was at planning stage (see Table 35).

Table 35: Prosecuted Cases by Tax Type in 2019

Office Type	Brought Forward	New Cases	Total	Concluded				Carried Forward
				Conviction	Acquittal	Withdrawn	Referred back	
Customs	8	15	23	7	1	1	1	13
Domestic Taxes	4	2	6	3	-	1	1	1
Total	**12**	**17**	**29**	**10**	**01**	**02**	**02**	**14**

Seizure of Goods

In 2019, the Authority seized several goods that were the subject of various offences valued at K51.1 million representing a 49.7 percent increase from 2018. The goods were either forfeited to the State and auctioned to recover taxes or donated to public and charitable organisations in accordance with the law.

MANAGING PEOPLE

Managing People

Staff Strategy

In line with the fourth pillar of the Corporate Strategic Plan, which is to maintain a committed, competent and high performing workforce, the Authority undertook the following initiatives:

i) Promotion of 143 employees in line with the Promotion Policy.

ii) Successfully implemented an automated Performance Management and Development Process which was used by all employees for end of year performance reviews.

iii) Engaged Korn Ferry, a prominent global people and organizational advisory firm, to conduct an online Employee Engagement Survey whose objective was to establish the levels of employee satisfaction with the work environment, conditions of service and staff motivation. The survey revealed that 74 percent of the employees were satisfied with their jobs. Based on the findings, the survey made a number of recommendations for the consideration of management.

iv) Establishment of a staff pension scheme through the appointment of one pension scheme administrator and two fund managers to strengthen the retention of staff and improve long term service benefits.

Staff Complement

The Authority's staff complement stood at 1,960 employees as at close of 2019 compared to 1,813 at the end of 2018, thereby representing an 8.1 percent increase. This increase was in response to the operational and structural changes implemented in 2019. The staff complement in 2019 was at 98.2 percent of the approved establishment compared to 97.5 percent in 2018 (see Table 36).

Table 36: ZRA Staff Complement by Division/Department/Unit as at end of 2019 and 2018

Division / Unit	2019		2018	
	Actual	Approved	Actual	Approved
Commissioner General's Office	87	88	42	44
Domestic Taxes	601	613	545	560
Customs Services	643	627	574	588
Administration Department	269	281	267	272
Legal Department	11	12	12	12
Research and Policy	19	19	11	12
Human Resource	34	43	39	39
Finance	152	157	147	149
Corporate Strategy	10	10	10	10
Information Technology	83	88	79	83
Projection Management	4	5	5	4
Internal Audit	18	20	19	19
Investigations	29	32	64	67
Total	**1960**	**1995**	**1,813**	**1,860**

The share of female staff in the Authority increased to 36.6 percent in 2019 from 35.0 percent recorded in 2018 demonstrating the Authority's commitment to gender equality. As at the end of the year, 682 or 34.8 percent of the total staff were employed on contract basis while the rest were on permanent and pensionable. Of the total staff complement, 88.0 percent were represented while 12.0 percent were not compared to 87.8 percent and 12.2 percent in 2018, respectively (see Table 37).

Table 37: ZRA Staff Complement by Category and Gender in 2019 and 2018

Staff Category	Grade	2019				2018			
		Male	Female	Total	% of Total	Male	Female	Total	% of Total
Non represented	ZRA00 – ZRA04	180	55	**235**	**12.0%**	170	52	**222**	**12.2%**
Represented	*ZRA05 – ZRA06*	*539*	*365*	***904***	***46.1***	*494*	*298*	***792***	***43.7***
	ZRA07 – ZRA10	*523*	*298*	***821***	***41.9***	*515*	*284*	***799***	***44.1***
	Total represented	1,062	663	1,725	88.0%	1,009	582	1,591	87.8%
Total		**1,242**	**718**	**1,960**	**100%**	**1,174**	**634**	**1,813**	**100%**

The staff complement in the operating divisions/departments was 1,273 or 64.9 percent in 2019 compared to 1,183 or 65.0 percent in 2018 (see Table 38).

Table 38: ZRA Staff Classification as Operations and Support in 2019 and 2018

Division/Department	2019	2018	% Change
Operations:			
Domestic Taxes	601	545	10.3%
Customs Services	643	574	12.0%
Investigations	29	64	(54.7%)
Sub Total	**1,273**	**1,183**	**7.6%**
Support Services:			
Commissioner General's Office	87	42	107.1%
Research & Policy	19	11	72.7%
Administration Department	269	267	0.7%
Legal Department	11	12	(8.3%)
Human Resource	34	39	(12.8%)
Finance	152	147	3.4%
Internal Audit	18	19	(5.3%)
Corporate Strategy	10	10	0
Information Technology	83	79	5.1%
Projects	4	4	0
Sub Total	**687**	**630**	**9.0%**
Grand Total	**1,960**	**1,813**	**8.1%**

Resourcing and Selection

In 2019, the Authority made 482 recruitments, out of which 215 were through internal recruitment while the rest were recruited externally.

Performance Management and Development Process

The Authority has in place a Performance Management and Development Process through which employee performance with regards to set objectives is monitored on a bi-annual basis. In terms of performance ratings, 99.7 percent of the employees either met or exceeded their objectives.

Staff Development and Training

The Authority continuously trains its staff in order to meet the changing business needs of the taxpayers. In this regard, capacity building programmes were delivered to 3,867 participants in 2019 compared to 2,976 participants in 2018. Of the training programs planned for the year, 85 percent were implemented with a budget utilisation rate of 92 percent.

Separations

During the year under review, 126 employees separated from ZRA compared to 77 separations in 2018. Thus the rate of attrition stood at 6.4 percent in 2019 compared to 4.0 percent in 2018.

The separations were on account of dismissals, resignations, early retirement, expiry of fixed term contracts, discharges from employment and deaths (see Table 39).

Table 39: Separations Recorded in 2019 and 2018

Year	Dismissal	Termination of Contract/ Employment	Contract Expiry	Resignation	Retirements by service & Age	Medical/ Employment Discharge	Death	Total
2019	31	2	6	32	44	6	5	126
2018	13	2	12	11	34	1	4	77

Staff Welfare and Employee Relations

Employee Wellness/HIV and AIDS

The Wellness Support Scheme (WSS) which is compulsory for all members of staff aims to promote a healthy workforce through lifestyle changes and at the same time encourages employee fitness through sport. To this effect, sports days were held in southern, central and northern regions at which employees participated in various sports activities. Further, the Authority participated in the Southern African Inter-Revenue Administration Games in Gaborone, Botswana and emerged overall winners.

At the end of the year, 80 employees were accessing the Anti-Retroviral Therapy (ART) under the Scheme, representing 4.1 percent of the total work force.

Employee Relations

The year under review was characterised by cordial industrial relations. The management and the union continued to engage on matters affecting staff welfare amicably.

PHYSICAL ASSET MANAGEMENT

Information Technology and Physical Asset Management

Asset Management

As part of its on-going infrastructure upgrade and maintenance programme, the Authority undertook a number of construction projects at its various offices across the country. These works were meant to create an enabling and efficient corporate environment within ZRA. The major works undertaken are shown in Table 40.

Table 40: Major Construction Projects in 2019

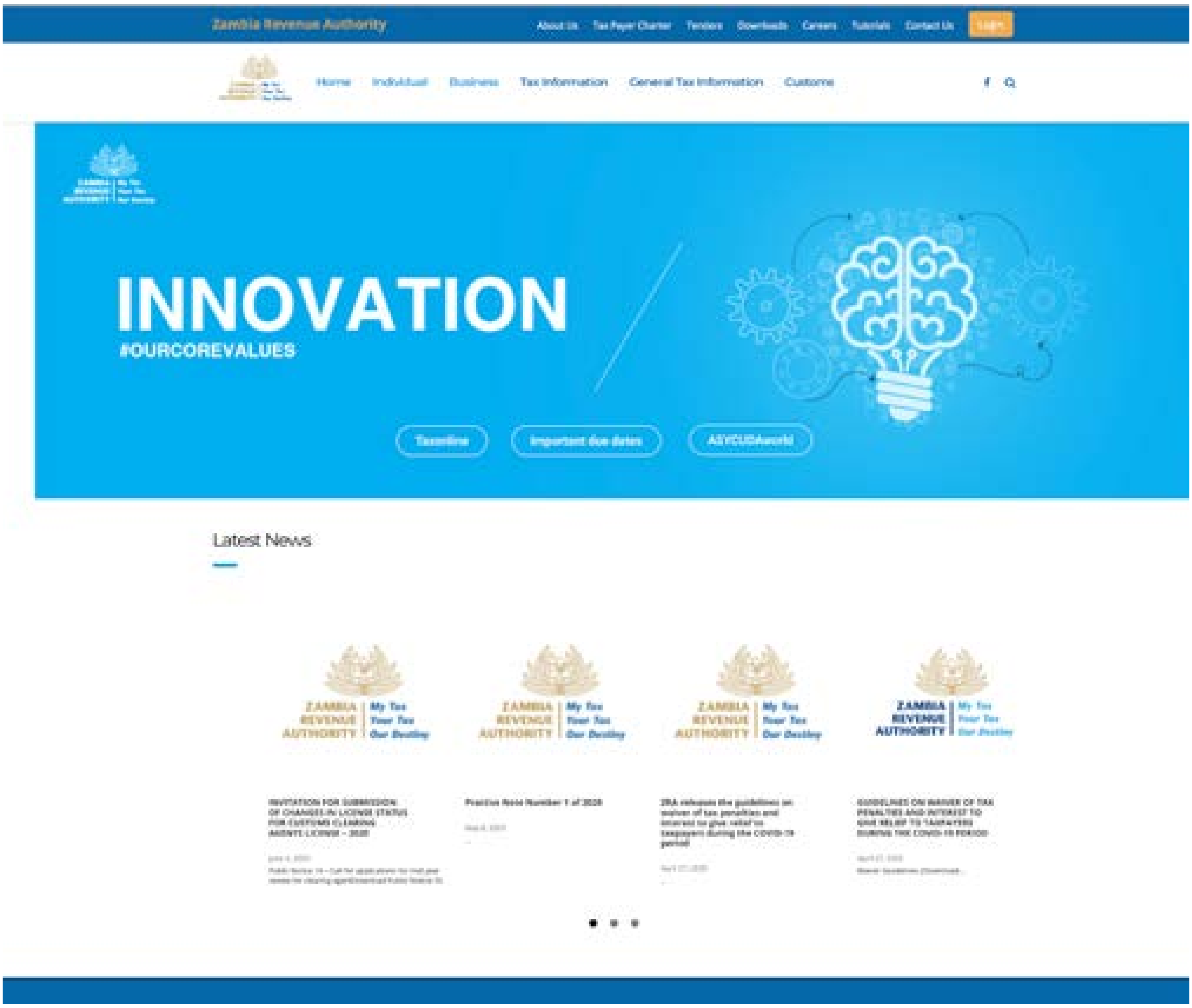
S/N	Project Name	Contract Value (K)	Status
1	Painting of External Façade and installation of sunshades at Revenue House	7,474,298.0	completed
2	Remodelling of the Eleventh Floor of Revenue House	1,180,293.6	completed
3	Remodelling of the Second Floor of Revenue House	1,373,906.6	45% complete
4	Remodelling and creation of Customer Service Centre at ECL Mall in Kitwe	401,944.9	completed
5	Rehabilitation of offices at Solwezi	1,202,938.0	50% complete
6	Rehabilitation of offices at Mongu	2,988,653.7	completed
7	Renovation of Customer Service Centre at Nakonde One Stop Border Post	301,823.4	completed
8	Fencing and construction of 2 guard houses at Chanida Border Post	294,039.1	completed
9	Proposed alteration and extension for Chelstone Training Centre kitchen	617,196.0	50% complete
10	Fencing of Katima Mulilo Border Post	744,035.6	70% complete
11	Renovations at Chirundu One Stop Border Post	439,123.8	95% complete
12	Installation of lighting mast at Chanida Border Post	501,000.0	completed
13	Construction of 2 staff houses in Chinsali	1,978,442.6	completed
14	Construction of 3 staff houses in Kasama	2,591,169.7	completed
15	Construction of 8 housing units at Katima Mulilo Border Post	2, 175,920.2	completed
16	Construction of Staff Houses at Chanida Border Post	2,794,956.7	Contract Awarded awaiting site handover
Total		**27,059,741.9**	

Information and Communication Technology

During the year, the Authority developed and deployed a new website. The Authority also automated the Performance Management Appraisal system which replaced the paper-based system. Further, a bulk short messaging system (SMS) was implemented that allows the authority to effectively communicate with taxpayers. The system also has the capability of sending alerts on non-availability of our key operating systems like TaxOnline and ASYCUDAWorld. The Authority also implemented a robust backup solution to enhance data security, storage and recovery.

The other innovations that were undertaken are as follows:

- A private in-house cloud solution was deployed to ensure enhanced availability of connectivity.
- Enabled the Ministry of Foreign Affairs to connect to ASYCUDA World through the Government Wide Area Network.
- Two servers, one production testing server and one backup server for the Bulk Intelligence Data Analytics (BIDA) project, were configured at Head Office and Zambia National Data Center respectively.
- A new TaxOnline system was developed in conjunction with the Copperbelt University.



MANAGING RESOURCES

Managing Resources

During the year, the Authority received an income of K1, 338.54 million out of which K937.1 million was funding from the Government. In 2019, ZRA raised K382.25 million from ASYCUDA fees compared to K255.650 million in 2018.

Table 41 provides a comparative summary of our operating income and expenditure for 2019 and 2018.

Table 41: Summary of Income and Expenditure, 2019 and 2018

	2019	2018
	K	K
Revenue from non-exchange transactions		
Government grants	937,148,830	979,353,283
Mineral Value Chain and Norwegian Tax		
Administration income	-	10,894,383
Deferred income	1,579,124	1,814,779
Sub total	***938,727,954***	***992,062,445***
Revenue from exchange transactions		
Asycuda processing fees	382,251,288	255,650,555
Other income	7,501,425	8,018,689
Finance income	5,900,677	10,257,842
Kasumbalesa Agency fees	4,127,609	5,070,146
Kariba Dam Agency fees	29,970	24,677
Sub total	***399,810,969***	***279,021,909***
Total Revenue	**1,338,538,923**	**1,271,084,354**
Expenditure		
Personnel expenses	(1,005,437,696)	(843,797,566)
Administrative expenses	(89,879,046)	(78,410,542)
Other operating expenses	(199,878,696)	(138,578,969)
Depreciation and amortisation expenses	(98,978,091)	(75,452,950)
Loss on foreign exchange transactions	(52,245,091)	(57,777,261)
Total expenses	**(1,446,418,620)**	**(1,194,017,288)**
(Deficit)/surplus for the year	**(107,879,697)**	**77,067,066**

The Authority received K1.6 million in deferred income and K29, 970 as commission on the Kariba Dam toll fees. Further, K41.3 million was collected in 2019 from the Kasumbalesa Joint Venture Project where ZRA is the appointed profit collection agent on behalf of the Government. The Authority retained 10 percent of this amount as administration fee in accordance with the approval granted by the Minister of Finance. The 10 percent commission of K4.1 million is included in the Authority's income for the year.

Recurrent Expenditure

The recurrent expenditure for the Authority was largely made up of staff related costs which accounted for 69 percent, followed by operational costs at 14 percent in the period under review. Administrative costs accounted for 6 percent while depreciation and amortization accounted for 7 percent. The Authority also suffered foreign exchange losses to the tune of three percent of total recurrent expenditure. The foreign exchange losses are largely attributable to the year-end retranslation of the scanner loan which is denominated in Chinese Yuan.

During the year, administrative expenses increased by 15 percent, while other operating expenses increased by 44 percent from the 2018 level. As a result of an increase in the staff establishment as well as salary and wage adjustments, staff costs in 2019 increased by 19 percent from the 2018 level.

Capital Expenditure

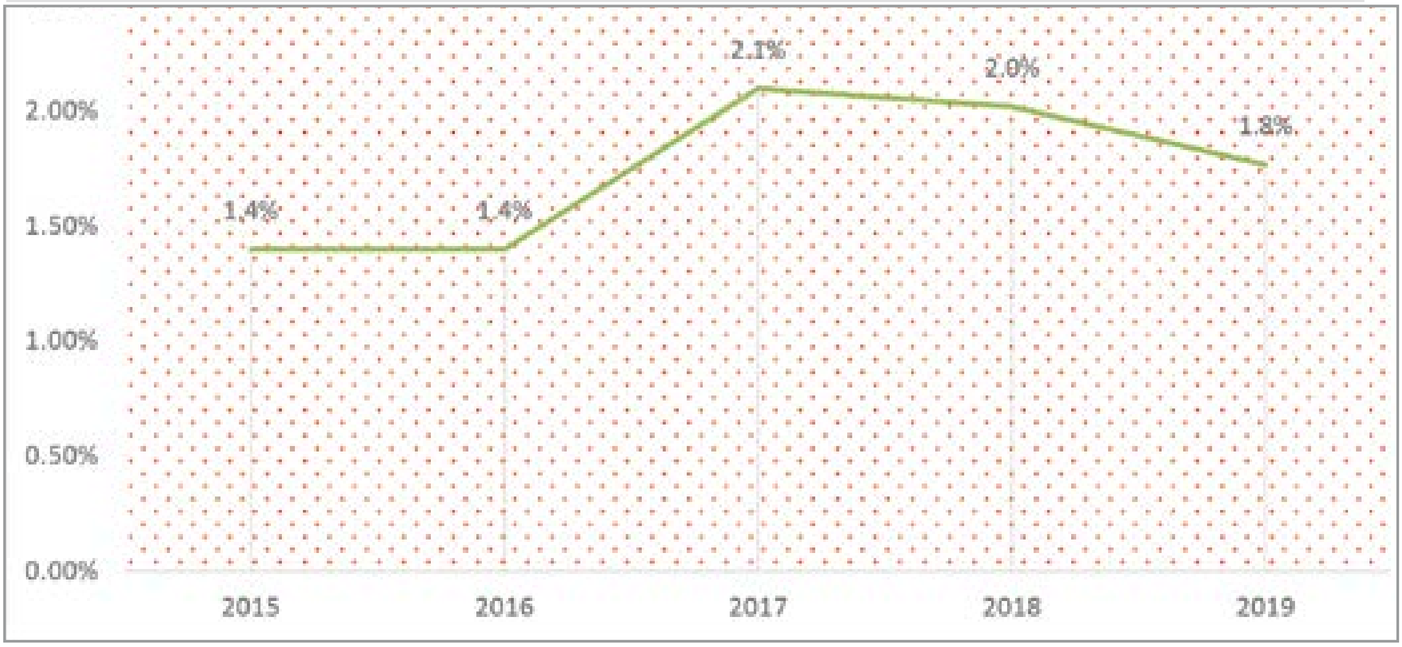
In 2019, the Authority spent K64.5 million in capital expenditure. The detailed financial performance based on Accrual Basis of Accounting is shown in the Financial Statements.

Cost of Tax Revenue Collection

The cost of tax revenue collection is another measure that tracks the efficiency of tax revenue administration in an economy. Typically defined as the ratio of government funding to total taxes collected in a given fiscal period, the cost of tax revenue collection shows the extent of the utilised scarce public resources to mobilise a given level of tax revenue.

In 2019, the cost of tax revenue collection ratio was 1.8 percent compared to 2.0 percent in 2018, thereby signifying an increase in efficiency in tax revenue administration. This increase in efficiency is mainly a reflection of the maturity of various innovative interventions for improving customer experience that have been put in place over time. The cost of revenue collection ratio has averaged 1.7 percent during the last five years (See Figure 29).

Figure 29: Government Funding as a Percentage of Collected Tax Revenue, 2015-2019



FINANCIAL STATEMENTS

ANNUAL REPORT 2019

ZAMBIA REVENUE AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2019

ZAMBIA REVENUE AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS
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ZAMBIA REVENUE AUTHORITY

GOVERNING BOARD'S REPORT

The Governing Board submit their report together with the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of the Authority.

PRINCIPAL ACTIVITIES

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

RESULTS	**2019** **K**	2018 K
Revenue	**1 338 538 923**	1 271 084 354
(Deficit)/surplus for the year	**(107 879 697)**	77 067 066

The deficit for the year of **K107.9 million** (2018: K77.1 million) has been adjusted in the capital fund.

GOVERNING BOARD

The members who held office during the year were:

Ms. Chileshe M. Kapwepwe - Chairperson
Mr. Fredson K. Yamba
Mr. Alfred J. Lungu
Mrs. Thandiwe D. Oteng
Mrs. Cecilia Zimba
Mr. James Koni
Dr. Denny Kalyalya
Mr. Kamalesh M. Shah
Mr. Andrew M. Musukwa

A new board was appointed on 27 February 2020. The members that have been reappointed from the previous board are Mr. Fredson K. Yamba, Dr. Denny Kalyalya, Mr. James Koni and Mrs. Cecilia Zimba.

EMPLOYEES

The total remuneration of employees during the year amounted to **K1,005.4 million** (2018: K843.8 million). The average number of employees for each month of the year was as follows:

Month	**Number**	**Month**	**Number**
January	1 847	July	1 913
February	1 834	August	1 908
March	1 828	September	1 907
April	1 888	October	1 897
May	1 897	November	1 912
June	1 910	December	1 926

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

PROPERTY AND EQUIPMENT

The Authority purchased property and equipment amounting to **K64.5 million** (2018: K103.9 million) during the year. In the opinion of the Directors, the carrying value of property and equipment is not more than their recoverable value.

GIFTS AND DONATIONS

Donations to charitable organisations and events during the year amounted to **K905,606** (2018: K155,277).

AUDITOR

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

DIRECTOR
Date:

ZAMBIA REVENUE AUTHORITY

STATEMENT OF GOVERNING BOARD'S RESPONSIBILITIES

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

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

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

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

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

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

Signed on behalf of the Board by:

DIRECTOR

DIRECTOR

INDEPENDENT AUDITOR'S REPORT

To the Government of Zambia through the Minister of Finance

Report on the financial statements

Opinion

We have audited the accompanying financial statements of the Zambia Revenue Authority (the "Authority") as set out on pages 6 to 30, and which comprise the statement of financial position as at 31 December 2019, the statement of financial performance, the statement of changes in net assets, the statement of cash flows and the statement of comparison of budget for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements presents fairly, in all material respects, the financial position of the Authority as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS) and in the manner required by the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Authority in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Revised July 2016), parts 1 and 3 of the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (Revised July 2018) and other independence requirements applicable to performing audits of financial statements in Zambia. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters	How our audit addressed the key audit matter
Actuarial valuation of pension obligations	
The Authority operates an unfunded lump sum gratuity arrangement. As the arrangement is unfunded, gratuity benefits are paid out of the Authority's general revenues. Upon retirement of unionisable and contract employees, a liability is settled by the Authority under the final salary principles. The Authority has legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. International Public Sector Accounting Standard No. 39 Employee Benefits states that " An entity shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period."	In considering the actuarial valuation of pension obligation, we performed the following procedures: Obtained the actuarial report based on 31 December 2019 numbers. Ensured that the valuation met IPSAS 39 requirements. Reviewed key inputs used within the report as well as challenged key assumptions made. Performed a retrospective review to assess obligation for reasonableness. Corroborated the inflation rates used to inflation projections in the region and tested for reasonableness.

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

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Governing Board.
- Conclude on the appropriateness of the Governing Board's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal requirements

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

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

Deloitte & Touche

DELOITTE & TOUCHE

ALICE JERE TEMBO
PARTNER
AUD/F000433

DATE: 03/06/2020

ZAMBIA REVENUE AUTHORITY

STATEMENT OF FINANCIAL POSITION
at 31 December 2019

	Notes	2019 K	2018 K
ASSETS			
Current assets			
Inventories	19	**2 256 332**	3 565 590
Employee loans and advances (exchange transactions)	20	**27 782 569**	30 806 289
Other assets	21	**51 098 442**	28 014 837
Cash and cash equivalents	22	**104 058 096**	216 970 265
Customs deposit bank accounts	26	**580 186**	4 689 653
Tax refunds bank accounts	27	**84 494 299**	19 037 012
		270 269 924	303 083 646
Non-current assets			
Property and equipment	17	**822 031 715**	840 847 153
Intangible assets	18	**100 014 672**	85 511 096
Employee loans and advances (exchange transactions)	20	**15 422 554**	10 268 763
		937 468 941	936 627 012
TOTAL ASSETS		**1 207 738 865**	1 239 710 658
Liabilities			
Current liabilities			
Investment Climate Facility, Mineral Value Chain and Norwegian Tax Administration grants (non-exchange transactions)	9	**-**	1 375
Deferred income	10	**1 624 041**	1 569 154
Post employment benefits	23	**48 451 946**	78 726 300
Payables	24	**93 427 857**	101 065 871
Borrowings	25	**75 170 602**	31 589 142
Customs deposit bank accounts	26	**580 186**	4 689 653
Tax refunds for tax payers	27	**84 494 299**	19 037 012
Total current liabilities		**303 748 931**	236 678 507
Non-current liabilities			
Deferred income	10	**1 703 082**	635 733
Post employment benefits	23	**274 561 028**	446 115 699
Borrowings	25	**329 429 362**	379 363 560
Total non-current liabilities		**605 693 472**	826 114 992
TOTAL LIABILITIES		**909 442 403**	1 062 793 499
NET ASSETS		**298 296 462**	176 917 159
Capital deficiency		**(89 019 682)**	(212 817 465)
Revaluation reserve		**387 316 144**	389 734 624
NET ASSETS/EQUITY		**298 296 462**	176 917 159

ZAMBIA REVENUE AUTHORITY

STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 31 December 2019

	Notes	2019 K	2018 K
Revenue from non-exchange transactions			
Government grants	6	**937 148 830**	979 353 283
Mineral Value Chain and Norwegian Tax Administration income	9	**-**	10 894 383
Deferred income	10	**1 579 124**	1 814 779
		938 727 954	992 062 445
Revenue from exchange transactions			
Asycuda processing fees	7	**382 251 288**	255 650 555
Other income	8	**7 501 425**	8 018 689
Finance income	15	**5 900 677**	10 257 842
Kasumbalesa Agency fees	11	**4 127 609**	5 070 146
Kariba Dam Agency fees	11	**29 970**	24 677
		399 810 969	279 021 909
Total Revenue		**1 338 538 923**	1 271 084 354
Expenditure			
Personnel expenses	12	**(1 005 437 696)**	(843 797 566)
Administrative expenses	13	**(89 879 046)**	(78 410 542)
Other operating expenses	14	**(199 878 696)**	(138 578 969)
Depreciation and amortisation expenses	17, 18	**(98 978 091)**	(75 452 950)
Loss on foreign exchange transactions	16	**(52 245 091)**	(57 777 261)
Total expenses		**(1 446 418 620)**	(1 194 017 288)
(Deficit)/surplus for the year		**(107 879 697)**	77 067 066

ZAMBIA REVENUE AUTHORITY

STATEMENT OF CHANGES IN NET ASSETS
for the year ended 31 December 2019

	Capital deficiency K	Revaluation reserve K	Total K
At 1 January 2018	(218 035 011)	127 429 112	(90 605 899)
Total comprehensive loss for the year	5 217 546	262 305 512	267 523 058
Surplus for the year	77 067 066	-	77 067 066
Other comprehensive income:			
Loss on employee retirement benefit plan	(74 268 000)	-	(74 268 000)
Revaluation surplus	-	264 723 992	264 723 992
Amortisation of revaluation surplus	2 418 480	(2 418 480)	-
Balance as at 31 December 2018	**(212 817 465)**	**389 734 624**	**176 917 159**
At 1 January 2019	**(212 817 465)**	**389 734 624**	**176 917 159**
Total comprehensive income for the year	**123 797 783**	**(2 418 480)**	**121 379 303**
Deficit for the year	(107 879 697)	-	(107 879 697)
Other comprehensive income:			
Gain on employee retirement benefit plan	229 259 000	-	229 259 000
Amortisation of revaluation surplus	2 418 480	(2 418 480)	-
At 31 December 2019	**(89 019 682)**	**387 316 144**	**298 296 462**

ZAMBIA REVENUE AUTHORITY

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Notes	2019 K	2018 K
Cash flows from operating activities			
(Deficit)/surplus for the year		**(107 879 697)**	77 067 066
Adjustments for:			
Amortisation of Mineral Value Chain, Norwegian Tax Administration and Investment Climate Facility grant	9	**-**	(10 894 383)
Amortisation of capital grant	10	**(1 579 124)**	(1 814 779)
Depreciation and amortisation	17, 18	**98 978 091**	75 452 950
Amortisation of staff benefit	20	**10 051 767**	12 643 916
Impairment loss on employee loans and advances	20	**213 966**	-
Gain on disposal of equipment		**(529 842)**	(812 749)
Net exchange losses on borrowings	25	**61 474 559**	49 369 408
Interest paid on borrowings	25	**(3 985 546)**	(4 128 556)
Net finance income		**(5 900 677)**	(10 257 842)
Capital work in progress written off	17	**534 426**	15 452 515
Defined benefit obligation expense	23	**187 411 000**	154 440 000
Operating cash flows before movements in working operating funds		**238 788 922**	356 517 546
Changes in operating funds:			
Decrease (increase) in inventories	19	**1 309 258**	(549 074)
Increase in employee loans and advances	20	**(12 395 804)**	(11 083 484)
Increase in other assets	21	**(23 083 605)**	(11 183 750)
(Decrease) increase in payables	24	**(7 638 014)**	23 540 414
		(41 808 165)	724 106
Employee benefits paid from plan	23	**(159 981 025)**	(99 521 000)
Net cash generated from operating activities		**36 999 732**	257 720 652
Cash flows from investing activities			
Interest received		**5 900 677**	10 257 842
Acquisition of property and equipment and intangible assets	17, 18	**(96 425 781)**	(103 851 323)
Proceeds from disposal of equipment		**1 754 968**	2 191 457
Investment Climate facility and Norwegian Tax Administration grant received	9	**-**	2 661 319
Investment Climate facility and Norwegian Tax Administration grant refunded	9	**(1 375)**	-
Capital grant received - World Bank	10	**2 701 360**	310 089
Net cash used in investing activities		**(86 070 151)**	(88 430 616)
Cash flows from financing activities			
Repayment of borrowings	25	**(63 841 750)**	(57 083 250)
Net cash used in financing activities		**(63 841 750)**	(57 083 250)
Net (decrease) increase in cash and cash equivalents		**(112 912 169)**	112 206 786
Cash and cash equivalents at beginning of the year		**216 970 265**	104 763 479
Cash and cash equivalents at end of the year	22	**104 058 096**	216 970 265

ZAMBIA REVENUE AUTHORITY

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
for the year ended 31 December 2019

	Notes	Approved Budget	Revised Budget	Actual Amounts	Performance difference
		K	K	K	K
Revenue					
Government grants	31.1.1	930 429 000	930 429 000	937 148 830	6 719 830
Asycuda processing fees	31.1.2	376 975 097	396 338 624	382 251 288	(14 087 336)
Other income	31.1.3	49 894 112	49 894 112	13 402 102	(36 492 010)
Mineral Value Chain and NTA	31.1.4	-	-	-	-
Deferred income	31.1.5	-	-	1 579 124	1 579 124
Kasumbalesa Agency fees	31.1.6	3 381 000	3 381 000	4 127 609	746 609
Kariba Dam Agency fees	31.1.7	-	-	29 970	29 970
		1 360 679 209	**1 380 042 736**	**1 338 538 923**	**(41 503 813)**
Expenditure					
Personnel expenses	31.2.1	1 017 344 689	962 644 222	1 005 437 696	(42 793 474)
Administrative expenses	31.2.2	82 697 972	108 767 135	89 879 046	18 888 089
Other operating expenses	31.2.3	216 287 726	238 436 527	199 878 696	38 557 831
Depreciation and amortisation expenses	31.2.4	-	-	98 978 091	(98 978 091)
Net exchange losses	31.2.5	-	-	52 245 091	(52 245 091)
Total expenditure		**1 316 330 387**	**1 309 847 884**	**1 446 418 620**	**(136 570 736)**
Surplus/(deficit) for the year		**44 348 822**	**70 194 852**	**(107 879 697)**	**95 066 923**

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

1. GENERAL INFORMATION

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

Revenue House
Kabwe Roundabout
P. O. Box 35710
Lusaka

2. STATEMENT OF COMPLIANCE

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

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

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

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

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

The Authority had a capital deficiency of **K89,019,682** (2018: K212,817,465 surplus) as at the reporting date, and as of that date its current liabilities exceeded its current assets by **K33,479,007** (2018: K66,405,139). On the basis that the Authority is Grant aided and funding by the Government has continued in the subsequent period, the Governing Board are of the opinion that the preparation of these financial statements on the going concern basis remains appropriate.

(b) Foreign currency translation

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

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Revenue recognition

Revenue from non-exchange transactions

Government revenue grants

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

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

Capital grants

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

Revenue from exchange transactions

Other income

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

Rental income

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

Sale of cigarette stamps

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

Interest income

Interest income is recognised using the effective interest rate method.

(d) Property and equipment

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

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

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

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

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

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property and equipment (continued)

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in income and expenditure. When revalued assets are sold, the amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(e) Leases

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

(f) Inventories

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

(g) Impairment of intangible assets

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

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

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

(h) Provisions

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

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

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial instruments

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

(i) *Financial assets*

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

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

(a) Effective interest rate method

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

(b) Receivables

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

(c) *De-recognition of financial assets*

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

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial instruments (continued)

(ii) Financial liabilities

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

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

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

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

(j) Deferred income

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

(k) Trade payables

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

(l) Borrowing costs

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

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

(m) Employee benefits

i) Retirement benefit obligations

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

(a) Pension obligations

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

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

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

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

Past-service costs are recognised immediately in income.

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

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Employee benefits (continued)

(b) Termination benefits

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates and assumptions

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

Retirement benefit obligations

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

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

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit risk

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

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

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Liquidity risk

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

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

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

	Less than 1 year K	Between 1 and 5 years K	Over 5 years K
At 31 December 2019:			
- borrowings	**75 170 602**	**293 540 310**	**35 889 052**
- payables	**93 427 857**	**-**	**-**
- employee benefits	**48 451 946**	**173 100 236**	**101 460 792**
	217 050 405	**466 640 546**	**137 349 844**
At 31 December 2018:			
- borrowings	31 589 142	253 417 675	125 945 885
- payables	101 065 871	-	-
- employee benefits	78 726 300	281 258 901	164 856 798
	211 381 313	534 676 576	290 802 683

Capital management

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

Fair value measurements

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

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

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

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

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

	Carrying value 2019	Fair value 2019	Carrying value 2018	Fair value 2018
Financial assets	K	K	K	K
Employee loans and advances	43 205 123	43 205 123	41 075 052	41 075 052
Other assets	51 098 442	51 098 442	28 014 837	28 014 837
Customs deposit bank account	580 186	580 186	4 689 653	4 689 653
Tax refunds bank accounts	84 494 299	84 494 299	19 037 012	19 037 012
Financial liabilities				
Borrowings	404 599 965	404 599 965	410 952 702	410 952 702
Payables	93 427 857	93 427 857	101 065 871	101 065 871
Customs deposit bank accounts	580 186	580 186	4 689 653	4 689 653
Tax refund bank accounts	84 494 299	84 494 299	19 037 012	19 037 012

Fair value Hierarchy as at 31 December 2019

	Level 1	Level 2	Level 3	Total
Financial assets	K	K	K	K
Employee loans and advances	-	-	43 205 123	43 205 123
Other assets	-	-	51 098 442	51 098 442
Customs deposit bank account	-	-	580 186	580 186
Tax refunds bank accounts	-	-	84 494 299	84 494 299
Financial liabilities				
Borrowings	-	-	404 599 965	404 599 965
Payables	-	-	93 427 857	93 427 857
Customs deposit bank accounts	-	-	580 186	580 186
Tax refund bank accounts	-	-	84 494 299	84 494 299

6. GOVERNMENT GRANTS

	2019	2018
	K	K
Annual budgetary allocation	890 010 624	822 490 000
Supplementary funding	47 138 206	156 863 283
	937 148 830	979 353 283

Supplementary funding comprises K37 million for the Tax Online 2 Project and other modernisation activities and K10 million for border management expenses.

7. ASYCUDA PROCESSING FEES

	2019	2018
Asycuda processing fees are derived from the charge of K500 per transaction for the processing of imported goods at the borders. This income is partly used to maintain the scanners that process imported goods.	382 251 288	255 650 555

8. OTHER INCOME

	2019	2018
Rental income	2 564 616	2 546 411
Cigarette stamps sales proceeds	2 365 294	1 544 818
Gain on disposal of property and equipment	1 653 224	1 946 502
Sundry income	918 291	1 980 958
	7 501 425	8 018 689

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

9. MINERAL VALUE CHAIN AND NORWEGIAN TAX ADMINISTRATION GRANTS	2019 K	2018 K
Tax Administration grants		
At beginning of the year	1 375	8 234 439
Receipts during the year	-	2 661 319
Refunds	(1 375)	-
Recognised in statement of financial performance	-	(10 894 383)
At end of the year	-	1 375
Broken down as follows:		
Mineral Value Chain Monitoring project (MVCMP)	-	1 375

The Authority had an existing memorandum of understanding with the Royal Norwegian Government for strengthening of Tax Administration through the Norwegian Tax Administration (NTA) agreement. In addition, an agreement also existed for the strengthening of mining monitoring and mining tax administration through the Mineral Value Chain Monitoring Project. Under the Investment Climate Facility for Africa (ICF)/ZRA bilateral agreement, the former made part contribution to the software for the Tax Online which was mainly financed by Government, in particular phase 1 dealing with e- services and change management activities. The ICF project came to a close in December 2016 while the NTA and MVCMP both came to an end in 2018.

10. DEFERRED INCOME	2019 K	2018 K
At beginning of the year	2 204 887	3 709 577
Receipts during the year	2 701 360	310 089
Recognised in statement of financial performance	(1 579 124)	(1 814 779)
At end of the year	3 327 123	2 204 887
Amounts falling due within one year	1 624 041	1 569 154
Amounts falling due after one year	1 703 082	635 733
	3 327 123	2 204 887

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

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

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

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

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

11. AGENCY FEES

(a) Kasumbalesa Agency fees

In March 2017, the Authority was appointed by the Government of the Republic of Zambia (GRZ) as a Profit Collection Agent in respect of the Concession Agreement between the GRZ and the Zambian Intellectual Property Border Crossing Company Limited (ZipBCC) for collection of profits on its behalf. The income of **K4,127,609** (2018: K5,070,146) reported in the statement of financial performance represents 10% agency fees on the government share of profits collected on its behalf by the Authority during the year.

(b) Kariba Dam Agency fees

In January 2013, the Authority signed a memorandum of understanding with Zambezi River Authority for collection of toll fees on the Kariba dam on its behalf. The income of **K29,970** (2018: K24,677) reported in the statement of financial performance represents 10% agency fees on the toll fees collected on behalf of Zambezi River Authority during the year.

12. PERSONNEL EXPENSES

	2019	2018
	K	K
Basic pay	**394 988 093**	336 244 874
Retirement benefit expense	**197 041 026**	196 678 825
Housing allowance	**114 009 467**	97 603 969
Leave pay	**99 138 828**	68 523 353
Other allowances	**49 755 212**	35 653 427
Bonus	**43 475 102**	36 264 334
Overtime	**33 318 520**	27 907 095
NAPSA contributions	**21 177 737**	18 439 377
Pension Scheme contributions	**16 496 519**	-
Medical expenses	**14 819 835**	10 971 743
Training	**10 299 205**	7 239 184
Staff welfare and professional subscriptions	**7 798 446**	4 383 980
Insurance	**1 970 676**	2 914 592
ART contribution	**1 149 030**	972 813
	1 005 437 696	843 797 566

13. ADMINISTRATIVE EXPENSES

Repairs and maintenance - buildings	**17 279 673**	15 078 294
Travel expenses	**15 006 833**	11 585 010
Advertising and public relations	**9 063 703**	7 341 504
Office rentals	**8 536 049**	6 777 602
Postage and telephones	**5 247 812**	2 930 239
Fuel	**5 197 577**	2 251 474
Staff uniforms	**4 755 463**	3 885 560
Electricity, water and rates	**4 663 510**	4 982 556
Printing and stationery	**4 538 732**	4 911 606
Motor vehicle repairs	**4 505 610**	3 834 673
Subscriptions and publications	**4 020 700**	6 565 753
Board expenses	**2 035 710**	1 852 604
Motor vehicle insurance and licence	**1 517 126**	1 727 670
Conferences and seminars	**1 096 669**	525 488
Corporate social responsibility	**876 908**	2 598 492
Audit expenses	**796 448**	618 910
Bank charges	**549 643**	463 564
Insurance	**190 880**	479 543
	89 879 046	78 410 542

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

14. OTHER OPERATING EXPENSES

	2019	2018
	K	K
Repairs and maintenance - IT	**117 694 824**	73 276 435
Travel/relocation	**33 598 638**	24 156 903
Security	**20 136 354**	18 151 580
Advertising/promotional material and conferences	**11 513 209**	8 394 040
Field work - fuel	**5 430 705**	3 067 871
Other professional fees	**3 635 039**	3 034 479
Cigarette stamps	**2 175 887**	2 239 237
Scanner operations	**1 898 758**	2 120 327
Printing and stationery	**1 610 387**	1 864 909
Legal and professional expenses	**1 113 967**	1 081 114
Tender Expenses	**1 070 928**	779 502
Exchange Program	**-**	412 572
	199 878 696	138 578 969

15. FINANCE INCOME

	2019	2018
Relates to interest income on short term bank deposits.	**5 900 677**	10 257 842

16. NET EXCHANGE LOSSES

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

	2019	2018
Mid market exchange rate at 1 January	**12.0**	9.9
Mid market exchange rate at 31 December	**14.1**	10.1
Average depreciation	**18%**	2%

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

17. PROPERTY AND EQUIPMENT

	Leasehold land K	Leasehold buildings K	Plant and machinery K	Office equipment K	Motor vehicles K	Furniture fixtures and fittings K	Capital work in progress K	Total K
At 1 January 2018	32 881 900	204 750 694	254 597 533	23 526 062	20 998 509	7 881 817	60 201 697	604 838 212
Additions	-	1 740 000	21 636 531	14 300 347	9 287 888	5 501 061	51 385 496	103 851 323
Disposals	-	-	(1 430 430)	(5 202 587)	(5 064 419)	(2 225 326)	-	(13 922 763)
Transfers	1 573 400	7 136 753	-	21 870 666	-	-	(30 580 818)	-
Transfer to intangible (note 18)	-	-	-	-	-	-	(48 749 901)	(48 749 901)
Revaluation surplus	5 115 102	259 608 890	-	-	-	-	-	264 723 992
Depreciation charge	-	(4 836 121)	(40 058 663)	(11 174 160)	(8 020 392)	(2 895 914)	-	(66 985 250)
Eliminated on disposal	-	-	1 430 430	5 186 938	3 703 199	2 223 487	-	12 544 055
Expensed	-	-	-	-	-	-	(15 452 515)	(15 452 515)
At 31 December 2018	39 570 402	468 400 215	236 175 401	48 507 266	20 904 785	10 485 124	16 803 960	840 847 153
At 31 December 2018								
Cost or valuation	39 570 402	487 948 161	437 286 397	104 031 153	61 655 123	22 286 263	16 803 960	1 169 581 459
Accumulated depreciation	-	(19 547 945)	(201 110 996)	(55 523 888)	(40 750 338)	(11 801 140)	-	(328 734 306)
Carrying amount	**39 570 402**	**468 400 216**	**236 175 401**	**48 507 266**	**20 904 785**	**10 485 123**	**16 803 960**	**840 847 153**
At 1 January 2019	39 570 402	468 400 216	236 175 401	48 507 266	20 904 785	10 485 123	16 803 960	840 847 153
Additions	-	-	86 250	25 489 252	14 960 423	10 267 857	13 713 241	64 517 023
Disposals	-	-	(10)	(2 035 849)	(4 171 191)	(172 610)		(6 379 660)
Transfers	-	19 343 220	-	3 668 338	-	-	(23 011 557)	-
Depreciation charge	-	(9 724 465)	(41 115 876)	(16 365 987)	(10 405 824)	(3 960 757)	-	(81 572 909)
Eliminated on disposal	-	-	10	1 948 055	3 047 808	158 661	-	5 154 534
Expensed*	-	-	-	-	(20 398)	-	(514 028)	(534 426)
At 31 December 2019	**39 570 402**	**478 018 971**	**195 145 775**	**61 211 075**	**24 315 603**	**16 778 274**	**6 991 615**	**822 031 715**
At 31 December 2019								
Cost or valuation	39 570 402	507 291 380	437 372 637	131 152 894	72 444 355	32 381 510	6 991 616	1 227 204 794
Accumulated depreciation	-	(29 295 521)	(242 202 699)	(69 941 819)	(48 128 752)	(15 604 288)	-	(405 173 079)
Carrying amount	**39 570 402**	**477 995 859**	**195 169 938**	**61 211 075**	**24 315 603**	**16 777 222**	**6 991 616**	**822 031 715**

* The capital work in progress expense assets relate to the costs incurred by the Authority in the fencing and french drain at Katima Mulilo, creation of a customs checkpoint barrier at Kenneth Kaunda International Airport and the cost of power installation paid to ZESCO Limited at Kipushi. The depreciation charge relates to additional depreciation charged on a water vessel that was disposed of in the year.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

17. PROPERTY AND EQUIPMENT (CONTINUED)

Fair values of buildings

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

The different levels have been defined as follows:

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

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

Valuation techniques to derive Level 2 fair values

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

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

	2019	2018
	K	K
Cost	**192 576 273**	164 356 301
Accumulated depreciation	**(41 150 623)**	(33 656 902)
Carrying amount	**151 425 650**	130 699 400

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

18. INTANGIBLE ASSETS

	Software	**Capital work in progress**	**Total**
COST	**K**	**K**	**K**
At 1 January 2018	61 159 458	-	61 159 458
Additions for the year (note 17)	48 749 901	-	48 749 901
At 1 January 2019	109 909 359	-	109 909 359
Additions	-	31 908 758	31 908 758
At 31 December 2019	**109 909 359**	**31 908 758**	**141 818 117**
Amortisation			
At 1 January 2018	(15 930 563)	-	(15 930 563)
Amortisation charge for the year	(8 467 700)	-	(8 467 700)
At 1 January 2019	(24 398 263)	-	(24 398 263)
Amortisation charge for the year	(17 405 182)	-	(17 405 182)
At 31 December 2019	**(41 803 445)**	**-**	**(41 803 445)**
CARRYING AMOUNT			
At 31 December 2019	**68 105 914**	**31 908 758**	**100 014 672**
At 31 December 2018	85 511 096	-	85 511 096

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

19. INVENTORIES

	2019 K	2018 K
Cigarette stamps	**1 043 572**	1 411 697
Stationery	**530 232**	624 316
Uniforms	**474 567**	1 175 981
Other consumables	**207 961**	353 596
	2 256 332	3 565 590

No allowance has been made for obsolescence and slow moving inventory (2018: Nil).

20. EMPLOYEE LOANS AND ADVANCES

	2019 K	2018 K
Advances against gratuity	**14 451 121**	12 421 848
Other loans	**13 619 053**	11 564 015
Personal loans	**9 802 236**	10 040 063
Vehicle ownership loans	**5 403 045**	6 703 141
Home ownership loans	**210 469**	412 820
	43 485 924	41 141 887
Impairment allowance	**(280 801)**	(66 835)
	43 205 123	41 075 052
Amounts falling due within one year	**27 782 569**	30 806 289
Amounts falling due after one year	**15 422 554**	10 268 763
Total employee loans and advances	**43 205 123**	41 075 052

Interest is charged at 5% per annum for all employee loans.

Staff loans marked to market

	2019 K	2018 K
At beginning of year	**41 075 052**	42 635 484
Current year fair value	**12 181 838**	11 083 484
Amortisation to profit or loss	**(10 051 767)**	(12 643 916)
	43 205 123	41 075 052

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

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

20. EMPLOYEE LOANS AND ADVANCES (CONTINUED)

	2019	2018
The prevailing interest rates on staff loans were as follows:		
	%	%
Personal loan	5	5
Personal Development loan	5	5
House	5	5
Car loan	5	5

Movement in the impairment allowance	2019	2018
	K	K
At beginning of year	66 835	510 012
Amounts written off	-	(443 177)
Impairment in the current year	213 966	-
Balance at end of the year	280 801	66 835

21. OTHER ASSETS

Funds receivable from Kasumbalesa Concession	35 001 036	17 420 690
Prepayments	12 489 823	7 064 080
Other receivables	3 607 583	3 530 067
	51 098 442	28 014 837

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

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

22. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	104 058 096	216 970 265
Held as follows:		
Zambia National Commercial Bank Plc	48 098 784	178 571 324
Indo Zambia Bank Limited	26 963 988	24 068 499
Bank of Zambia (Asycuda Fees)	15 491 165	5 922 076
Atlas Mara Bank Limited	6 649 194	7 644 299
Citi Bank Limited	6 281 200	10 000
Cash on hand	497 911	691 655
Investrust Bank PLC	10 200	10 000
Standard Chartered Bank Plc	10 051	5 850
First Capital Bank Limited	10 000	10 000
First Alliance Bank Limited	10 000	10 000
Cavmont Bank Limited	10 000	10 000
Stanbic Bank Limited	9 818	8 972
First National Bank Limited	8 185	5 890
Eco Bank Limited	7 600	1 700
Total cash and cash equivalents	104 058 096	216 970 265

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

23. EMPLOYEE BENEFITS

	2019 K	2018 K
Retirement benefits	**81 162 694**	354 036 665
End of contract gratuity	**241 850 280**	170 805 334
	323 012 974	524 841 999
Amounts falling due within one year	**48 451 946**	78 726 300
Amounts falling due after one year	**274 561 028**	446 115 699
	323 012 974	524 841 999
Movement in the present value of the defined benefit obligations:		
Defined benefit obligations at 1 January	**524 841 999**	395 654 999
Benefits paid by the plan	**(159 981 025)**	(99 521 000)
Service costs	**101 458 000**	90 555 000
Interest cost	**85 953 000**	63 885 000
Actuarial (gains) loss	**(229 259 000)**	74 268 000
Defined benefit obligation at end of year	**323 012 974**	524 841 999
Expense recognised in deficit or surplus		
Service costs	**101 458 000**	90 555 000
Interest costs	**85 953 000**	63 885 000
	187 411 000	154 440 000

The significant actuarial assumptions were as follows:

	31 December 2019		31 December 2018	
	Retirement benefits	**End of contract gratuities**	Retirement benefits	End of contract gratuities
Discount rate	**23.5%**	**23.5%**	17.0%	17.0%
Inflation	**10.0%**	**10.0%**	11.0%	11.0%
Future salary increases	**11.5%**	**11.5%**	12.5%	12.5%

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

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

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

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

24. PAYABLES

	2019 K	2018 K
Accrued leave pay	**42 128 024**	37 652 860
Trade payables	**30 616 435**	11 874 776
Accrued expenses	**20 683 398**	51 538 235
	93 427 857	101 065 871

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

25. BORROWINGS

	2019	2018
Loan from Ministry of Finance	**404 599 965**	410 952 702
Amounts falling due within one year	**75 170 602**	31 589 142
Amounts falling due after one year	**329 429 362**	379 363 560
	404 599 964	410 952 702
At beginning of year	**410 952 702**	422 795 100
Loan repayments during the year	**(63 841 750)**	(57 083 250)
Loan interest paid during the year	**(3 985 546)**	(4 128 556)
Net exchange losses during the year	**61 474 559**	49 369 408
	404 599 965	410 952 702

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

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

26. CUSTOMS DEPOSITS BANK ACCOUNTS

Customs deposits bank accounts

	2019	2018
The Customs deposits bank accounts relate to monies held on behalf of importers pending assessments. The Customs and Excise Act, Chapter 322 of the Laws of Zambia requires that after 30 days any monies not refunded to importers must be returned to the Government. The corresponding liability to refund importers is included as a payable.	**580 186**	4 689 653

27. TAX REFUNDS BANK ACCOUNTS

	2019	2018
Value Added Tax (VAT) refund	**65 206 566**	16 716 393
Income tax refund	**13 820 572**	980 150
Customs refund	**5 467 161**	1 340 469
	84 494 299	19 037 012

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

28. CONTINGENT LIABILITIES

There were legal proceedings outstanding against the Authority, which were awaiting ruling/judgment by the courts of law as at 31 December 2019. In the opinion of the Governing Board, these claims and lawsuits in aggregate will not have a significant adverse effect on the financial statements. All tax related litigation claims will be funded by the Government if they materialise.

29. COMMITMENTS

	2019 K	2018 K
Capital commitments		
Capital expenditure contracted for at the end of the reporting period but not recognised in the financial statements is as follows:		
Property, plant and equipment	**12 065 211**	25 183 969
Operating lease commitments		
The Authority leases various properties under non-cancellable operating lease. The lease terms are between 1 and 5 years, and the majority of the lease agreements are renewable at the end of the lease period at market rates.		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Not later than 1 year	**1 374 342**	7 574 114
Later than 1 year and not later than 5 years	**3 215 140**	15 148 229
	4 589 482	22 722 343

30. RELATED PARTY TRANSACTIONS

	2019 K	2018 K
Transactions with Government		
Funding received from Government	**937 148 830**	979 353 283
Scanner loan repayments to Government	**67 827 296**	61 211 806
	1 004 976 126	1 040 565 089
Key management personnel compensation		
Key management includes Governing Board and members of senior management. The compensation paid or payable to key management for employee services is shown below:		
Salaries and other short-term employment benefits	**23 331 226**	23 484 311
Post-employment benefits	**10 462 219**	9 506 963
Directors Fees	**2 035 710**	1 184 467
	35 829 155	34 175 741
Loans to Commissioners		
Loans and advances	**3 465 780**	2 817 885

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

31. BUDGET INFORMATION

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

31.1 REVENUE

31.1.1 Government grants

The grant for the previous year was higher due to an urgent need to replace outdated Tax Online servers and other urgent modernization activities. The actual funding received in the current year was slightly more than the budgeted amount due to the performance of the Kasumbalesa profit sharing budget line owing to favourable movements in the US Dollar exchange rate.

31.1.2 Asycuda processing fees

The Asycuda processing fee per transaction was revised upwards from K384.50 to K500.0 as per 2019 budget. However the actual transaction volumes were less than budgeted by 28,000 transactions in the year resulting in a negative variance of K14.09 million.

31.1.3 Other income

Other income under-performed in the year largely due to investment income being less than budgeted owing to the interest on short term fixed deposits being lower than anticipated.

31.1.4 Mineral Value Chain and NTA

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

31.1.5 Deferred income

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

31.1.6 Kasumbalesa Agency fees

The Authority's agency fee of 10% on the Kasumbalesa profit sharing was higher than budget in the period due to good performance of the concession in the year and the higher than budgeted exchange rate.

31.1.7 Kariba Dam Agency fees

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

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2019

31. BUDGET INFORMATION (CONTINUED)

31.2 EXPENDITURE

31.2.1 Personnel expenses

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

31.2.2 Administrative expenses

The fuel budget was revised upwards due to revision of pump prices upwards. Also, the electricity and water budget was increased to cater for new rented space especially at shopping malls. The actual performance and the budget were fairly the same.

31.2.3 Other operating expenses

The budget was revised upwards due to staff relocations meant to reduce familiarity so as to prevent corruption among members of staff. The ICT recurrent budget was revised upwards to include Tax Online server accessories. Procurement for these accessories had already been initiated by year end.

31.2.4 Depreciation and amortization expenses

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

31.2.5 Net exchange losses

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

32. EVENTS AFTER THE REPORTING DATE

There have been no material facts or circumstances that have occurred between the reporting date and the date of these financial statements that require disclosure in or adjustment to the financial statements, however, on 11th March 2020, the World Health Organization (WHO) classified COVID-19 as a pandemic and called on every sector and every individual to be involved in fighting against it. The financial impact of COVID-19 has not yet been assessed at the time of signing these financial statements.

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