ZAMBIA REVENUE AUTHORITY

2017 ANNUAL REPORT

Letter of Transmittal

OFFICE OF THE CHAIRMAN OF GOVERNING BOARD

29th May, 2018

Honourable Margaret D. Mwanakatwe, 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 23rd Annual Report of the Zambia Revenue Authority, covering the Financial Year 1st January 2017 to 31st December 2017.

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

Yours faithfully,

Chileshe M. Kapwepwe
Chairman of the Governing Board

TABLE OF CONTENTS

GLOSSARY

CPC	Centralised Processing Center
CSR	Corporate Social Responsibility
DEC	Drug Enforcement Commission
DFID	Department for International Development (UK)
DMMU	Disaster Management and Mitigation Unit
EFD	Electronic Fiscal Device
ERM	Enterprise Risk Management
EU	European Union
FDI	Foreign Direct Investment
FISIM	Financial Intermediation Services Indirectly Measured
FMIS	Financial Management Information System
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
ICT	Information and Communication Technology
IGC	International Growth Centre
IMF	International Monetary Fund
ISIC	International Standards of Industrial Classification
ITAS	Integrated Tax Administration System
KRI	Key Risk Indicator
LAN	Local Area Network
LME	London Metal Exchange
LTO	Large Taxpayer Office
MCU	Mobile Compliance Unit
MIDAC	Mineral Data Analysis Centre
MoF	Ministry of Finance
MOSES	Mineral Output Statistical Evaluation Sysytem
MVCMP	Mineral Value Chain Monitoring Project
NIIE	Non-Intrusive Inspection Equipment
NTA	Norwegian Tax Administration
OECD	Organisation for Economic Cooperation and Development
OSBP	One-Stop Border Post
OTA	Office of Technical Assistance
PACRA	Patents and Companies Registration Agency
PAYE	Pay as You Earn
PEE	Prevention, Education and Enforcement
PFMRP	Public Financial Management Reform Programme
PMDC	Performance Management and Development Contract
SADC	Southern African Development Community
SAP	Systems Applications Products
SME	Small and Medium Enterprises
SMTO	Small and Medium Taxpayer Office
TADAT	Tax Administration Diagnostic Assessment Tool
TIMS	Tax Invoice Management System
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
VDP	Value for Duty Purposes
VSAT	Very Small Aperture Terminal
VSS	Voluntary Support Scheme
WCO	World Customs Organisation
WTO	World Trade Organisation
WVAT	Withholding VAT
ZABS	Zambia Bureau of Standards
ZAMeT	Zambia Mobile Electronic Taxation
ZDA	Zambia Development Agency
ZNDC	Zambia National Data Centre
ZRA	Zambia Revenue Authority
ZRAIC	ZRA Integrity Committee

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.The Chief Executive Officer of ZRA is the Commissioner General who is appointed by the President of the Republic of Zambia and is an ex-officio member of the Governing Board. The operations of ZRA are overseen by the Governing Board. The members of the Board elect the Chairman and the Vice- Chairman from amongst themselves.

MEMBERS OF THE ZRA GOVERNING BOARD

Ms. Chileshe M. Kapwepwe

Chairman

Mr. Alfred J. Lungu

Vice Chairman

Mr. Fredson K. Yamba

Member

Mrs. Thandiwe D. Oteng

Member

Dr. Denny Kalyalya

Member

Mr. Kamalesh M. Shah

Member

Mr.James Koni

Member

Mr. Andrew M. Musukwa

Member

VACANT

ZICA Representative

Member

MEMBERS OF THE ZRA SENIOR MANAGEMENT


Mr. Kingsley Chanda
Commissioner General


Mr. Moses Shuko
Commissioner Domestic Taxes


Mr. Sydney Chibbabbuka
Commissioner Customs Services


Mrs. Brigitte N. Muyenga
Commissioner Finance


Mr. Dingani C. Banda
Commissioner Modernisation & Corporate Strategy


Mr. Clement K. Mulenga
Director Investigations


Mr. Ezekiel Phiri
Director Research & Policy


Mrs. Suzyo M. Ng'andu
Board Secretary


Mr. Kwibisa Siyunyi
Director Internal Audit

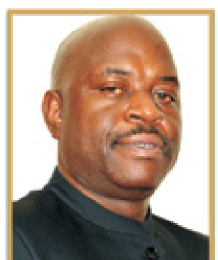

Mr. Moffat Nyirenda
Director Human Resource


Mr. Callistus Kaoma
Director Administration


Ms. Nkanga Shimwandwe
Deputy Commissioner MCTI


Mr. Morgan Mukwasa
Director Legal Services


Mr. Reuben Kunda
Deputy Commissioner Support


Mr. Kwegyer Msimuko
Deputy Commissioner Operations


Mr. Timothy Milambo
Director Finance


Mr. Benjamin Simpungwe
Director Treasury Management


Mr. George Mwale
Director Indirect Taxes


Mr. Moonga Mumba
Director Corporate Strategy


Mr. Andrew Kazilimani
Director Project Management


Mr. Yakomba Yavwa
Director Information Communication Technology


Mr. Peter Phiri
Director Design & Monitoring


Mr. Joseph Nonde
Director Direct Taxes

CHAIRMAN'S STATEMENT

I am delighted to present the 23rd Annual Report of the Zambia Revenue Authority for the financial year ended 31st December 2017 which includes the audited financial statements for the period under review. During the year under review, the Authority collected net revenue amounting to K39, 149.7 million against a target of K37, 622.5 million. This outturn was K1, 527.2 million or 4.1 percent above target. The positive performance during the year was anchored on continuous and heightened engagements with taxpayers to ensure voluntary compliance. In addition to the foregoing, the relative improvement in inflation, electricity supply, the Kwacha exchange rate against major trading currencies, and the price of copper on the international market, accelerated business activity and therefore sustained revenue performance during the year.

One of the most significant initiatives that made our enforcement efforts more productive was the separation of the Direct and Indirect Departments within the Domestic Taxes Division. Due to this separation, the Division was able to galvanize its efforts resulting in the record-breaking improvement in the performance of Value Added Tax (VAT). This exceptional performance was also largely achieved through the commissioning of the withholding VAT scheme under Indirect taxes with the appointment of withholding VAT agents. Further, the tremendously successful Tax Amnesty exercise which ran from April to September, 2017 also positively impacted tax revenue collections during the year.

In an increasingly digital environment, ZRA continued to employ technology to operate smarter business processes so as to be more efficient thereby making it easier for our taxpayers to comply with their tax obligations. This was accomplished by driving the adoption of e-Payment across all banking platforms serving all our taxpayer segments, among other administrative initiatives. Significant progress was also made towards the introduction of Electronic Fiscal Devices (EFDs) to be rolled out in 2018.

I wish to report that at the inaugural meeting of the Governing Board held in March, 2017, I was elected as Chairman of the ZRA Governing Board, while Mr. Alfred. J. Lungu was elected Vice-Chairman. This followed the appointment of the new Board by the Minister of Finance at the beginning of the year. In order to create stability and improve staff retention, the Board made a number of employee-related resolutions such as the Promotion Policy and the establishment of the Pension Scheme which entailed that the majority of our staff would be moved from fixed term contracts to permanent and pensionable employment. In addition, the tenure of fixed term contracts was increased to five (5) years from three (3) years for members of staff employed on contract.

With the continued stability in the country's key economic indicators, we hope for a favourable economic outturn in 2018. Further, our strategic changes at operational level backed by the dedication of our employees, have prepared us to face the future undaunted with renewed vigour and confidence.

On behalf of the Board, I wish to thank the Government of the Republic of Zambia through the Minister of Finance for providing sound policy direction to steer the Governing Board, Management and the organization at large to achieve its set objectives.

Chileshe M. Kapwepwe
Chairman of the ZRA Governing Board

COMMISSIONER GENERAL'S REPORT

I am pleased to present an overview of the operations and performance of the Zambia Revenue Authority during the financial year 1st January 2017 to 31st December 2017. The report also presents the audited financial statements for the period under review.

The economic stabilisation and growth policies which the Government is implementing have resulted in a rebound in Zambia's economy as evidenced by increased activity in the mining, agriculture and manufacturing sectors supported by improved electricity generation and supply. This positively impacted tax revenue collection.

During the year under review, the Authority collected gross revenues amounting to K45, 868.2 million while refunds amounted to K6, 718.5 million. The net position was thus K39, 149.7 million, thereby resulting in a surplus of K1, 527.2 million or 4.1 percent above target. This exceptional performance was buoyed by, among other things, the effective implementation of the withholding VAT mechanism which resulted in an increase of 61 percent in gross domestic VAT collections to K12, 190.9 million in 2017 from K7, 582.7 million in 2016. This increase in the gross domestic VAT is unparalleled when compared to an average growth of 13 percent attained over the five year period 2012 to 2016. It is important to state that this exceptional performance in revenue collection was despite the delayed implementation of efficiency initiatives such as the Electronic Fiscal Devices (EFDs) and Telecommunications Transaction Monitoring Systems and the National Single Window. The tax revenue to Gross Domestic Product (GDP) ratio stood at 16.6 percent in 2017 compared to 14.4 percent in 2016.

To sustain this remarkable performance, the Authority implemented a number of initiatives; these included the implementation of the Tax Amnesty on interest and penalties and aggressive debt enforcement activities. The Tax Amnesty received a very positive uptake from taxpayers. The Authority collected over K4 billion from the Amnesty and debt enforcement activities, out of which K617.2 million was from the debt swaps with some State Owned Companies which was part of the Amnesty programme to assist these companies to liquidate their huge tax liabilities.

Other initiatives such as the anti-smuggling operations and investigations were also scaled up during the year. The Authority realises that vices such as smuggling, undervaluation, misclassification, under-declarations and transit fraud pose a serious risk to domestic revenue collection. In order to improve tax compliance, the Authority undertook several investigations and enforcement operations which included random, risk based and intelligence patrols which resulted in several interceptions and additional revenue through assessments and penalties. The interceptions included 46 trucks laden with Mukula logs (exotic wood) which were forfeited to the State.

Similarly, to counter refund fraud, especially VAT refunds, forensic refund audits were commissioned which also resulted in additional revenue through assessments and interest payments.

Notwithstanding these successes, the Authority faced a number of challenges during the year. The staff numbers were below the approved establishment and this was particularly severe in the administration of withholding VAT on TaxOnline which was being processed manually thereby creating some inefficiencies. The continued lack of interface between electronic cargo scanners and ASYCUDAWorld operations undermined enforcement activities at ports of entry. And as mentioned earlier, smuggling through under-valuation, misclassification, fraudulent Certificates of Origin, under-declaration and non-declaration of goods to Customs remained a major challenge throughout 2017.

In our continued effort to improve operational efficiency, the Authority procured 40 motor vehicles which were distributed to various ZRA stations across the country. Furthermore, in order to address the challenge of office accommodation particularly at Head Office, the Authority acquired office space at Finsbury Park to accommodate some business units. With the heightened anti-smuggling operations, truck yards were acquired in Livingstone, Lusaka and Nakonde in order to provide for secure parking space of impounded trucks.

During the year, the Authority continued to implement the Corporate Strategic Plan (CSP) 2016-2018. In terms of overall performance of the Plan, 52 percent of the Key Performance Indicators were fully implemented, 28 percent were partially implemented while 20 percent were not met.

The process of cascading risk management to lower levels continued during the year with the introduction of risk registers at unit and station level. Risk identification and business impact analysis for business continuity process were prioritised culminating in the development of risk registers and business continuity plans for selected units. Major risks included systems downtime for TaxOnline and ASYCUDAWorld, low taxpayer compliance and smuggling. A total of 80 Key Risk Indicators were monitored during the year and the Authority undertook various measures to mitigate and manage the identified risks in order to minimise their impact on its operations.

The envisaged efficiencies from the restructuring of the Domestic Taxes division by the creation of the Direct Taxes and Indirect Taxes departments began to materialise in 2017. The synergies of the two departments resulted in record breaking improvement in the performance of VAT which hitherto had shown a downward trend over the years. With individual tax type performance now receiving dedicated attention, I am confident that the performance of excise duty which has also over the years shown a downward trend will soon rebound.

In order to make the Authority more visible and transparent and thus enhance public confidence, the Authority engaged the media in all spectrums of our operations. This interaction significantly helped in disseminating key messages to the public thereby assisting in improving the levels of compliance.

In line with the Government's objective of improving international trade facilitation and contribute to the reduction in the cost of doing business, the Nakonde One Stop Border Post was operationalised. This is expected to reduce the dwell time at the border as well as lead to coordinated border management within the regional economic community.

In keeping with our corporate objective of enhancing professionalism and productivity amongst staff, Productivity Standards were developed for all divisions and departments. The Promotion Policy was developed and implemented to ensure that internal candidates in possession of appropriate qualifications and experience are considered for higher positions before considering external candidates. Furthermore, a total of 33 members of staff in middle and lower management levels were trained in Supervisory Management Development program in order to enhance supervisory skills. To enhance staff integrity, awareness workshops were conducted in 24 stations for staff and other stakeholders on the dangers and consequences of engaging in unethical behaviour.

In order to maintain industrial harmony and ensure increased productivity of staff, management and the ZRA Workers Union successfully negotiated a new collective agreement for improved conditions of service and this is expected to increase staff morale.

I would like to thank the Government through the Ministry of Finance for ensuring that operational resources were made available in a timely manner. This enabled us to effectively undertake both programmed and ad hoc activities, particularly enforcement activities aimed at increasing revenue mobilisation. I want to also extend my sincere gratitude to the ever supportive and professional Governing Board of the Zambia Revenue Authority for its exemplary stewardship and exercise of high corporate governance values.

Our success is owed to management and staff, the taxpayers and all other stakeholders who continued to make our work easier through their valuable cooperation and input. I am convinced that the Authority will continue to register milestones that will further consolidate our goal of building a professional, effective and efficient revenue collection administration. We will therefore, in 2018 continue on this trajectory.

Kingsley Chanda
Commissioner General

OUR **VISION**

"To be a world class organisation recognised as a beacon of excellence in revenue administration."

OUR **MISSION**

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

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.

OUR **VALUES**

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

Integrity
Exhibiting the highest standard of personal probity and behaviour.

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

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

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

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

Teamwork
Working as a team, not only to reinforce each other's divisional functions, but also at a collegiate level in order to strengthen mutual confidence, respect and trust.

Value for Money
Avoiding wastage and extravagant use of resources.

Confidentiality
Upholding the highest level of secrecy in respect of information that comes to one's knowledge in the course of duty.

Goal orientation
Focusing on the development and achievement of personal and organisational goals in the course of duty.

Innovation
Consistently improving on quality, quantity, timeliness and cost.

RESPONSIBILITIES

The functions of ZRA are to:

- Properly assess and collect the 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
- Give advice on Tax Policy to Government
- Provide revenue and trade statistics to the Government
- Facilitate international trade

TAXES ADMINISTERED BY ZRA

The Authority administers the following tax types, levies and fees:

- Income Taxes
- Value Added Tax
- Excise Duties
- Customs and Export Duties
- Mineral Royalty
- Property Transfer Tax
- Motor Vehicle Fee
- Carbon Emissions Surtax
- Insurance Premium Levy
- Skills Development Levy
- Tourism Levy

STAKEHOLDERS

The stakeholders in the operations of ZRA include:

- The Government of the Republic of Zambia
- The people of Zambia
- The media
- The taxpayers, the business community and their interest groups, together with their professional advisors
- Tourists and travellers
- Members of regional and other multi-lateral 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 Department for International Development (DFID)
- Traders crossing Zambia's borders
- The Governing Board, Management and Staff of ZRA.

PERFORMANCE HIGHLIGHTS - 2017

ZRA collected
K39.2 billion

Tax to GDP ratio increased to **16.6% in 2017 from 14.4% in 2016**

Processing efficiency for income tax refund improved to **35.7 days in 2017 from 42.8 in 2016**

99.2% of the Tax Clearance Certificates were processed within **2 days**

ZRA exceeded Parliament target by **K1.5 billion or 4.1%**

Processing efficiency for customs deposit refunds improved to an average of **2.5 days in 2017 from 7.8 days in 2016**

Provision of clear information to taxpayers improved to **98% in 2017 from 95% in 2016**

OVERVIEW OF THE PERFORMANCE OF THE AUTHORITY

The following sections provide an overview of the Authority's Corporate Strategic Plan (CSP); its administration; and the service delivery levels in line with the standards outlined in the Taxpayer Charter.

Corporate Strategic Plan 2016 - 2018

During the year 2017, the Authority continued with the implementation of the Corporate Strategic Plan (CSP) 2016 - 2018. The CSP was developed based on the Balanced Scorecard (BSC) model. In order to enhance clarity of Strategic Objective 2, the objective was revised to read "To improve operational efficiency through development of infrastructure, systems and processes" from the previous "To improve operational efficiency and develop infrastructure."

The Strategic Objectives (SOs) are as follows:

Thematic Area	Strategic Objective
Financial Results	SO1: To optimise revenue collection
Business Process	SO2: To improve operational efficiency through development of infrastructure, systems and processes
Employee Satisfaction	SO3: To enhance the professionalism and productivity of the human capital
Customer Satisfaction	SO4: To provide accurate, courteous, timely and professional services to internal and external customers

Corporate Governance and Administration of the Authority

1. THE GOVERNING BOARD

The Authority has a Governing Board to oversee its overall organisation and administration. The Board is constituted by the Minister of Finance and has representation from both the public and private sectors. The current Board was appointed on 31st January 2017 and meets every quarter. The functions of the Board are carried out through the following Committees:

1.1 AUDIT COMMITTEE

The Audit Committee is responsible for overseeing and providing independent assurance and advice to the Board on the governance and risk management frameworks; effectiveness of internal controls; integrity of financial statements; compliance with relevant regulatory requirements and performance of the internal and external audit functions of ZRA.

1.2 FINANCE COMMITTEE

The Finance Committee is responsible for approving ZRA's financial policies, reviewing and approving guidelines that ensure proper accountability of operational funding and banking of revenues. The committee also approves guidelines for banking arrangements and policies that safeguard ZRA's assets.

1.3 LEGAL, STAFF AND DISCIPLINARY COMMITTEE

The Committee provides guidance on all legal matters referred to it by Management and on grievances referred to it in line with the Grievance and Disciplinary Procedures Code. The Committee also oversees issues related to the human resource which includes the recruitment of Senior Management staff, and the revision of conditions of service for staff, among others.

1.4 MODERNISATION AND CORPORATE STRATEGY COMMITTEE

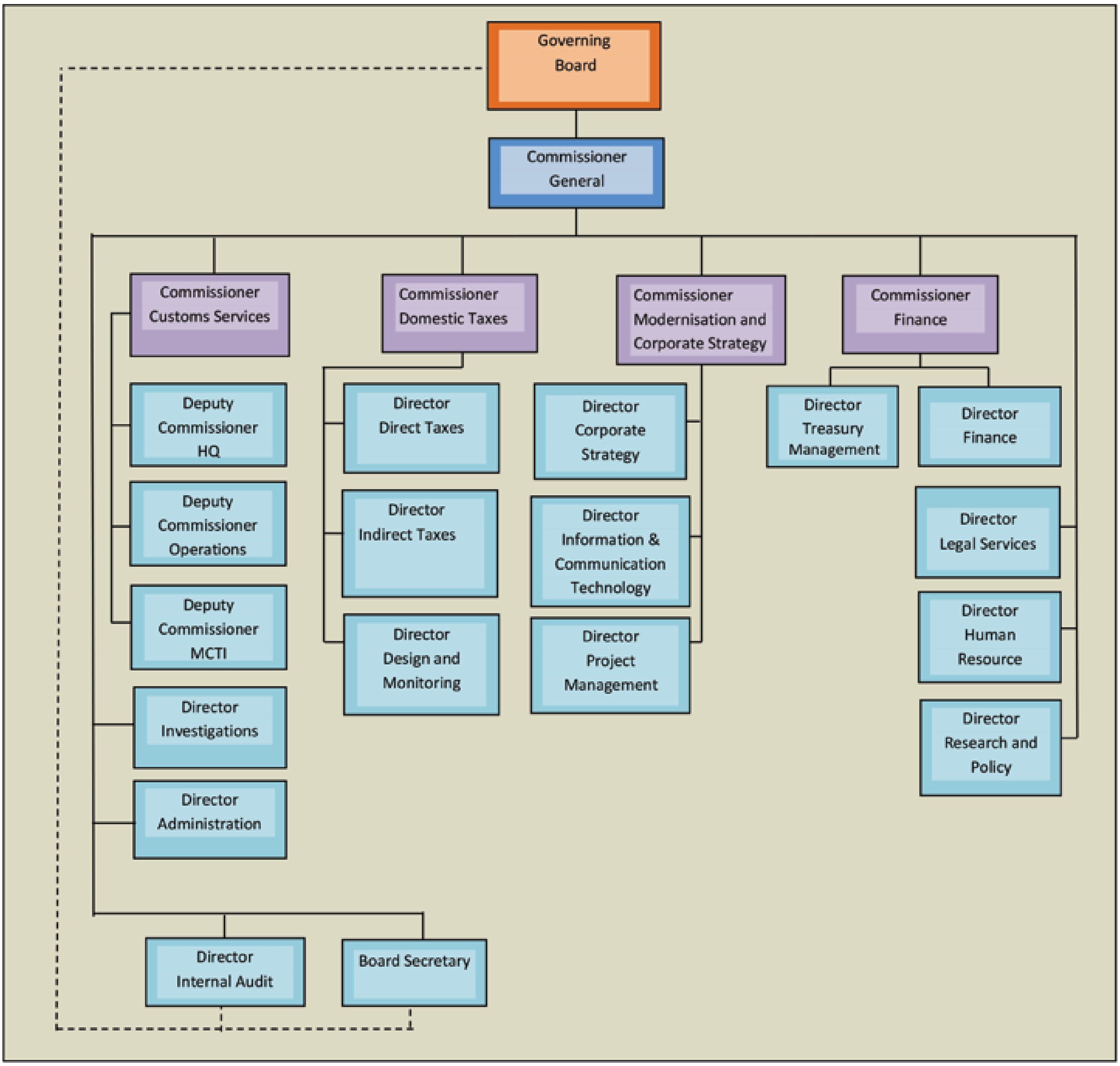
The Committee's mandate is to review and guide the Authority's corporate strategy and the modernisation reforms. The committee approves the set objectives of the CSP and monitors its implementation and performance.

2. THE OFFICE OF THE COMMISSIONER GENERAL

The Commissioner General, who is the Chief Executive Officer, is responsible for the day to day running of ZRA, under the direction of the Governing Board. In executing this mandate, the Commissioner General is assisted by the senior management members.

The governance structure of ZRA as at 31st December 2017 is depicted in Figure 1.

Figure 1: Governance Structure of ZRA



A number of changes were made to the structure during the year under review. A new position of Director Corporate Strategy was created to head the newly established Corporate Strategy Department. This department was later combined with Project Management and ICT departments to form a new division called Modernisation and Corporate Strategy Division headed by Commissioner Modernisation and Corporate Strategy.

Taxpayer Charter

One of ZRA's priority areas is continuous improvement in service delivery. To this effect, the Authority has in place the Taxpayer Charter which prescribes the minimum standards of service that clients should expect from ZRA as it performs its mandate. The service standards outlined in the Taxpayer Charter can broadly be divided into two categories:

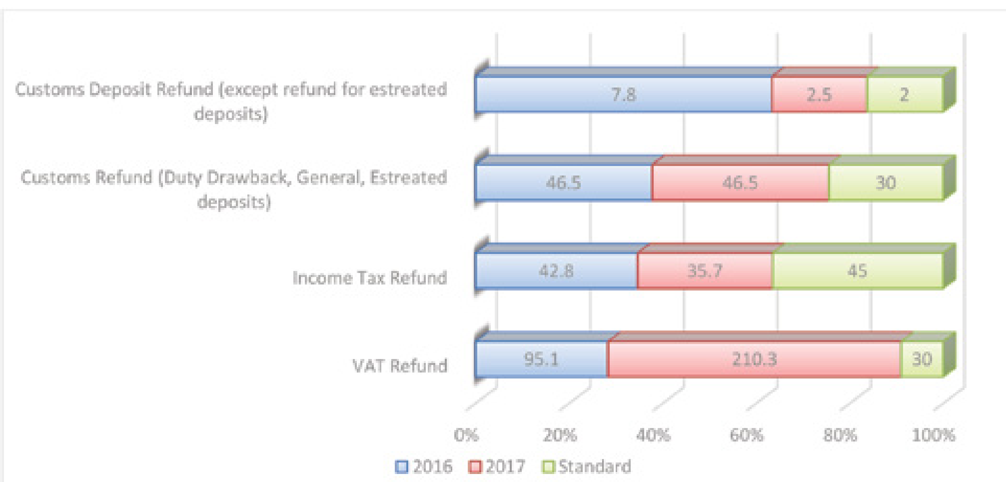
a) Standards related to taxpayer advisory services and processing efficiency; and

b) Standards related to the processing of tax refunds.

During the year, ZRA encountered challenges in meeting the performance standards with respect to Customs Deposit Refunds, Customs Refunds and VAT Refunds resulting in average processing times that were above the standards stipulated in the Taxpayer Charter. The Authority, however, registered improvements on Income Tax refunds and thus recorded a positive score against the Charter standard. It should be noted, however, that a significant proportion of the refund claims usually have queries while others are submitted with incomplete information, resulting in delays in processing the refunds.

Notwithstanding these challenges, the Authority's performance, in respect of time in which refunds were processed, improved for Customs Deposit refunds (to 2.5 days from 8 days on average) and Income Tax refunds (to 36 days from 43 days) when compared to the 2016 performance. However, performance in respect of Customs refunds remained static between the two periods while VAT refunds average performance worsened in 2017 to 210 days from 95 days in 2016. It should be further noted that, on average, only about 4.3 percent of the VAT claims submitted in 2017 were processed within the Charter standard of 30 days mainly due to administrative and staffing challenges that made it difficult to timely conclude disputed claims requiring audits. The underperformance of the customs refunds standard was in part due to system challenges which affected the processing efficiency (See Figure 2).

Figure 2: Efficiency of Tax Refunds Processing System (average number of days) in 2017 and 2016



Performance with respect to advisory services was generally good during the year under review. Notably, acknowledgements and responses to comments and complaints were provided within the Charter standards in all the sampled cases. Furthermore, 93.9 percent of the clients surveyed indicated that they were treated in a private and confidential manner.

In addition, ZRA processed 99.2 percent of the tax clearance certificates within the set standard of 2 days, while 97.8 percent of the clients revealed that the tax information they received from ZRA was adequate. The continued uptake of e-services implemented by ZRA has greatly influenced the positive outlook of the service related standards. Further, there has been increased use of emails to contact ZRA which makes it easier to promptly respond to taxpayers' queries. Additionally, ZRA has increased its taxpayer education activities through workshops, shows and radio presentations. This has increased tax awareness and tax knowledge among taxpayers. The setting up of queue management systems at the Lusaka and Kitwe Service Centres has helped to significantly reduce the average waiting time for taxpayers and hence adding to improved service efficiency.

In 2017, standards relating to processing efficiency of tax registrations and time taken to be served performed adversely relative to 2016. This was due to the increased volume of clients as a result of the Tax Amnesty programme and the mandatory Taxpayer Identification Number (TPIN) requirements for Bank account holders (see Figure 3 below).

Figure 3: Effectiveness of Taxpayer Registration and Advisory Services in 2017 and 2016

Table 1: ZRA performance against the Taxpayer Charter, 2017

No	Service	Standard	Average Performance, 2016	Average Performance, 2017	% of Cases handled within the Charter Standards, 2017
1	Tax Registration	We undertake to complete the process within 3 days	2.3 days	6.7 days	56.5%
2	VAT Refund	We undertake to pay the refund within 30 days from the date of lodgment of a VAT refund claim	95.1 days	210.3 days	4.3%
3	Income Tax Refund	We undertake to pay the refund within 45 days of submission of lodgment of an income tax return	42.8 days	35.7 days	84.3%
4	Customs Refund (Duty Drawback, General, Estreated deposits)	We undertake to pay the refund within 30 days from the date of lodgment	46.5 days	46.5 days	11.2%
5	Customs Deposit Refund (except refund for estreated deposits)	We undertake to pay the refund within 48 hours (2 Days) of the submission of a refund claim	7.8 days	2.5 days	76.3%
6	Customs Declaration	We undertake to process a clean customs declaration within 1.5 days	1.1 days	1.5 days	61.2%
7	Tax clearance Certificate	We shall issue a tax clearance within 2 days (48 hours) upon receipt ofa an application	0.9 days	0.1 days	99.2%
8	Service Efficiency	We undertake to attend to clients within 20 minutes of their arrival at the customer service centre	46.8 minutes	51.5 minutes	51.5%
9	Fairness	We undertake to allow our clients their right to appeal; inform them of their rights and obligations and treat them equitably, and in accordance with the law	63.5% of clients reported being treated with fairness	54.9%	54.9%
10	Information	We undertake to provide clear information on tax matters	94.5% of clients were provided with clear information	97.8%	97.8%
11	Acknowledge comments and complaints	We undertake to acknowledge comments, complaints and queries within 5 working days of their receipt	1.0 days	2.2 days	100.0%
12	Respond to comments and complaints	We undertake to respond to all comments complaints and queries within 14 days of their referral to the appropriate manager	1.1 days	1 day	100.0%
13	Privacy	We shall treat tax matters with privacy and confidentiality	98% of clients said they were treated with privacy and confidentiality	93.9%	93.9%

PRIORITIES FOR THE YEAR

PRIORITIES FOR THE YEAR

In line with the theme of our revised Corporate Strategic Plan (CSP) for the period 2016-2018 of enhancing domestic tax revenue mobilisation, our priorities for the year were aimed at enhancing compliance through various initiatives. The Authority implemented the Withholding VAT mechanism which enabled the appointed tax agents to withhold VAT at source. This initiative minimised the revenue leakage and resulted in a significant improvement in the performance of domestic VAT. Another initiative prioritised during the year was the dismantling of the debt portfolio through a Tax Amnesty on penalties and interest. The Amnesty enabled a number of taxpayers to settle their principal debt immediately while others entered into Time-To-Pay Agreements.

Other priorities were in the areas of tax audits, anti-smuggling operations and investigations. Through anti-smuggling operations, a number of seizures were made and the goods involved were forfeited to the State. In order to increase the uptake of e-services and reduce the cost of compliance, the roll-out and stabilisation of e-services was accelerated resulting in significant taxes being made through e-payments. The issuance of Taxpayer Identification Numbers was also prioritised as a means of enhancing compliance. Furthermore, the Authority adopted a customer centered strategy by enhancing outreach services and increasing the access of taxpayers to its services through workshops, training sessions and seminars. In addition, the Authority took a deliberate initiative to engage the media and this significantly helped in disseminating key messages to the public thereby assisting in improving the levels of compliance.

WIDENING THE TAX NET

Increasing tax collection from the Mining Sector

During the year under review, a number of milestones were achieved in the area of taxation of the mining sector. Under the Mineral Value Chain Monitoring Project (MVCMP), all the 12 mining entities that were on the pilot of the production reporting were migrated to full time electronic production reports starting from December 2017. However, piloting of the electronic export permit issuance module which targeted eight (8) base and precious metals mining and processing companies was still work in progress as at the end of the year.

In 2017, the Laboratory Information Management System for the MVCMP was installed and operationalised at the Zambia Bureau of Standards (ZABS) laboratories in Lusaka and at the ZRA Kitwe office. The Project also procured handheld mineral analysers and distributed them to selected borders for the mineral export and import quality verifications.

In the process of institutionalising the Project, a number of change management activities were conducted. These included the training and capacity building of key stakeholders making up the Mineral Data Analysis Centre (MIDAC) Team of selected officers from all the key institutions, small and large scale miners, mineral trading permit holders and processing companies. Other stakeholder engagements were conducted through media updates and workshops on the progress of the Project.

The MVCMP has yielded a number of benefits so far. With the electronic reporting system, standardised monthly reports from the mining entities are now delivered on time, and the reports are accessible to all relevant stakeholders unlike the previous manual system where mining entities would submit different reports to ZRA and the Ministry of Mines. The electronic reporting system has also made it easier to verify the data submitted by the mining entities.

Taxation of Small and Medium Taxpayers

The Authority continued to augment initiatives developed in 2016 that support the taxation of the Small and Medium Enterprises (SMEs). Priorities in 2017 were aimed at improving compliance among SMEs through improving tax audit yields and effective compliance management; increasing tax literacy and improving service delivery. With the support of the German government (GIZ), 40 auditors were trained in indirect audit methods as a way of building capacity to conduct audits for businesses with incomplete records. Under taxpayer awareness and tax literacy, strides were made to actualise the inclusion of tax education in the school curriculum. In 2017, progress was made towards the tax curriculum development and this involved scoping, sequencing and script writing. The next stage of the process will be validation and piloting of the curriculum.

The GIZ also facilitated the development of a Tax Compliance Strategy specific to SMEs. This strategy addresses compliance opportunities and challenges of small and medium taxpayers with regard to registration, return filing, reporting and payments. The overall objective is to facilitate and promote voluntary compliance among SMEs.

To improve taxpayer services and therefore tax compliance, the Authority with the support of GIZ procured and installed automated modern queue management systems at the Kitwe and Ndola Offices. Under the same support, the Authority also commenced the development of a mobile phone based e-tax solution for SMEs called Zambia Mobile Electronic Taxation (ZAMeT) Project. The primary objective of the project is to reduce tax compliance costs by increasing the range, quality, and uptake of e-services. In terms of uptake of e-services, the Small and Medium Taxpayer Office recorded e-filing rates of 98 percent for turnover tax; 100 percent for VAT; 100 percent for PAYE and 99 percent for provisional income tax returns.

Enhancing revenue collection using the Block Management System

The ZRA has continued using Block Management System as one strategy for enhancing small taxpayers' compliance in Zambia.

Activities undertaken in 2017 yielded a total of K13.8 million in tax assessments compared to K9.8 million assessed in 2016. It is worth noting that 98 percent of the assessed amount in 2017 came from audits conducted in the Ndola Blocks.

Table 2: Tax Type registrations in 2017 and 2016 under Block Management System

Type of Registration	Number registered	
	2017	**2016**
TPIN	265	-
Turnover Tax	57	550
PAYE	65	393
WHT	103	-
VAT	2	305
Income Tax	2	349
Total	**494**	**1,597**

In terms of taxpayer registrations, a total of 494 registrations were made under the Copperbelt Block comprising 265 TPINs; 56 Turnover Tax; 65 PAYE; 103 Whithholding tax; 2 VAT and 2 Income Tax compared to 550 (Turnover Tax); 393 (PAYE);305 (VAT); and 349 (Income Tax) registered the previous year under the Kamwala Block (see Table 2 above).

MOBILE COMPLIANCE ENFORCEMENT ACTIVITIES

In 2017, the Mobile Compliance Unit (MCU) focused on random and risk-based enforcement operations driven by intelligence leads. The enforcement operations resulted in 7,380 interceptions, out of which 1, 562 interceptions were referred to the Investigations Unit for further verification.

ELECTRONIC FISCAL DEVICES

In 2017 the Authority commenced with the procurement of electronic fiscal devices (EFDs) which are meant to enhance compliance in the administration of VAT. The contract for the supply and installation of the Tax Invoice Management System (TIMS) and Electronic Fiscal Devices was awarded to a supplier. Preparatory work for the system commenced in the second half of 2017 and the Tax Invoice Management System was planned to be rolled out in Lusaka, Ndola and Kitwe in January 2018 on a pilot basis from January to July, 2018. During the pilot period, 2000 devices were expected to be allocated to selected taxpayers. Taxpayers were expected to connect to ZRA either through the EFDs or Server to Server interface (Virtual EFD) for those with already developed point of sale systems.

The introduction of fiscal registers will provide an enhanced level of security in recording sales transactions. This system will allow for the information to be analysed and reported on in a systematic and efficient manner resulting in improved operational efficiency and ultimately increase the revenue collection. Additionally, the integration of the electronic fiscal devices domiciled at taxpayers' premises with the TaxOnline system will provide credible evidence of all transactions made to ZRA. The implementation of the EFDs is expected to yield the following benefits:

- Real time transmission of transaction data to the ZRA system.
- Easy detection of none or inconsistent users of the devices.
- Insulation from manipulation of information by users of the devices due to the existence of a backup on the ZRA system.

Furthermore, implementation of the electronic fiscal devices would help the Authority exploit the full potential of the VAT tax base while maximizing the utilisation of the TaxOnline system. In addition, the cost of obtaining information from the taxpayers would be reduced.

IMPROVING OPERATIONAL EFFICIENCY

During the year under review, various projects were undertaken aimed at improving the operational efficiency of the Authority:

Physical Infrastructure Development

- Housing Projects:

The following housing projects were undertaken in the year 2017:

- Rehabilitation of ZRA staff houses in Chipata and at Mwami Border; and

- Replacement of the dilapidated and leaking roof at the Kenneth Kaunda International Airport Flats.

- Office Building Projects:

- Completion of the First Phase of the construction of the new Chanida Border infrastructure; and
- Refurbishment and remodelling of the 7th Floor of Revenue House.

- General Infrastructure Projects:

- Construction of an auditorium with a seating capacity of 276 at the ZRA Training Centre in Lusaka up to 98 percent completion;
- Construction of a perimeter fence at Kazungula Border to control access and improve border security ; and
- Construction of a guard house and sewer system at Katima Mulilo Border.

Office Furniture & Equipment

During the year 2017, the Authority procured assorted office furniture and non-ICT equipment for its various offices countrywide at a total cost of K 3.5 million.

Transport

During the year 2017, the Authority procured a total of 40 brand new motor vehicles to support the operations of the Authority at a total cost of K15.3 million.

ENFORCEMENT AND COMPLIANCE ACTIONS

CUSTOMS SERVICES DIVISION

Scanner Operations

The deployment of Non-Intrusive Inspection Equipment (NIIE) also known as scanners, has significantly contributed to the reduction of the customs processing time and subsequently the cost of doing business. In 2017, the use of scanners in the examination of imports and exports complimented the Authority's enforcement activities in the clearance of goods which resulted in increased compliance among importers and exporters. The proportion of the scanned trucks with discrepancies reduced to 0.02 percent in 2017 from 0.2 percent in 2016.

In the period under review, 76,367 trucks or 38.3 percent were scanned from a total of 199,322 that passed through Chanida, Chirundu, Kasumbalesa, Katimamulilo, Kazungula and Mwami Border Posts. The proportion of the scanned trucks slightly reduced to 38.3 percent in 2017 from 39.6 percent in 2016 (See Table 3 below)

Table 3: Scanners Activity Report for 2017

Port	Total Truck Traffic	Scanned	Truck with discrepancies	Additional Revenue Collected (K)
Chanida	9,924	9,924	0	0.0
Chirundu	78,115	41,121	0	15,389.0
Kasumbalesa	63,401	0	0	0.0
Katima Mulilo	13,720	6,135	2	328,720.2
Kazungula	18,436	14,068	10	14,933.0
Mwami	15,726	5119	0	0.0
Total	199,322	76,367	12	359,042.2

A total of twelve (12) trucks that were scanned at Chanida, Chirundu, Kasumbalesa and Kazungula Border Posts were found with various discrepancies and additional revenue amounting to K359,042.2 was realised (See Table 3 above).

Border Enforcement

During the year under review, enforcement and compliance activities were undertaken at various ports on a risk based. These activities involved inspections, road blocks and follow ups on intelligence received from various stakeholders. Compliance visits were also made to bonded warehouses and customs areas for inland ports. A comparison in the value of goods detained and seized in 2017 indicates a reduction by 32.6 percent over the 2016 levels (See Table 4). The detentions and seizures were mostly related to the following:

- assorted alcoholic beverages, secondhand clothing and cooking oil seized for the offence of smuggling or undervaluation;
- motor vehicles awaiting final clearance and those on expired bonding entries and expired Customs Importation Permits (CIPs);
- goods that had overstayed in Customs Areas; and
- goods pending payments.

Table 4: Detentions and Seizures in 2017 and 2016 (K'million)

Type	2017 (K' Mn)	2016 (K' Mn)	Change (K' Mn)	% Change
Value of Detained Goods	46.5	79.1	-32.6	-41.3%
Value of Seized Goods	22.5	23.2	-0.7	-3.3%
Total	**68.9**	**102.3**	**-33.4**	**-32.6%**

INVESTIGATIONS

Mobile Compliance Unit (MCU)

During the period under review, the MCU's main activities focused on random and risk-based enforcement operations driven by intelligence leads.

The enforcement operations conducted during the year of 2017 included random and risk based intelligence patrols and resulted in 7,380 interceptions with a value of K830.0 million out of which 1,562 interceptions, with a value of K136.4 million were referred to the Investigations Unit for further verification.

The MCU's total number of interceptions of 7, 380 in 2017 exceeded the targeted number of interceptions of 2,750 by 168.4 percent. The interceptions increased as a result of the rise in operations during the year under review.

Investigations Unit

During the year, 2017, the Investigations Unit handled a total of 425 cases, out of which 83 were brought forward from 2016. A total of 94 cases were concluded during the year while 331 were carried forward to 2018.

Table 5: Investigation cases

2017	B/F	New Cases Received	Total	Terminated	Referred to Division	Civil Settlement	Prosecution	C/F
CUSTOMS	30	213	243	5	1	45	7	185
DOMT	53	129	182	5	2	28	1	146
TOTAL	**83**	**342**	**425**	**10**	**3**	**73**	**8**	**331**

Out of the 425 cases considered in 2017, 243 cases related to customs and excise, while 182 cases were domestic taxes related. This presents an increase of 155.8 percent for customs and excise related cases and an increase of 50.4 percent for domestic taxes related cases from 95 and 121 cases conducted in 2016 respectively (See table 6)

Domestic Taxes Division

Audits have remained one of the major tools for tackling non-compliance, promotion of voluntary compliance and identification of areas in the law that require clarification. The Audit programme in 2017 was focused on detecting non-compliance and gathering intelligence.

Tax Audits

A total of 9,850 audits were conducted in the year, resulting into a tax assessment amount of K 2,533 million. Comprehensive audits raised K 1,083 million, issue based audits raised K1, 388 million and others (miscellaneous) raised K 62 million in additional taxes (See Figure 4 below).

Figure 4: Performance of Audit Types

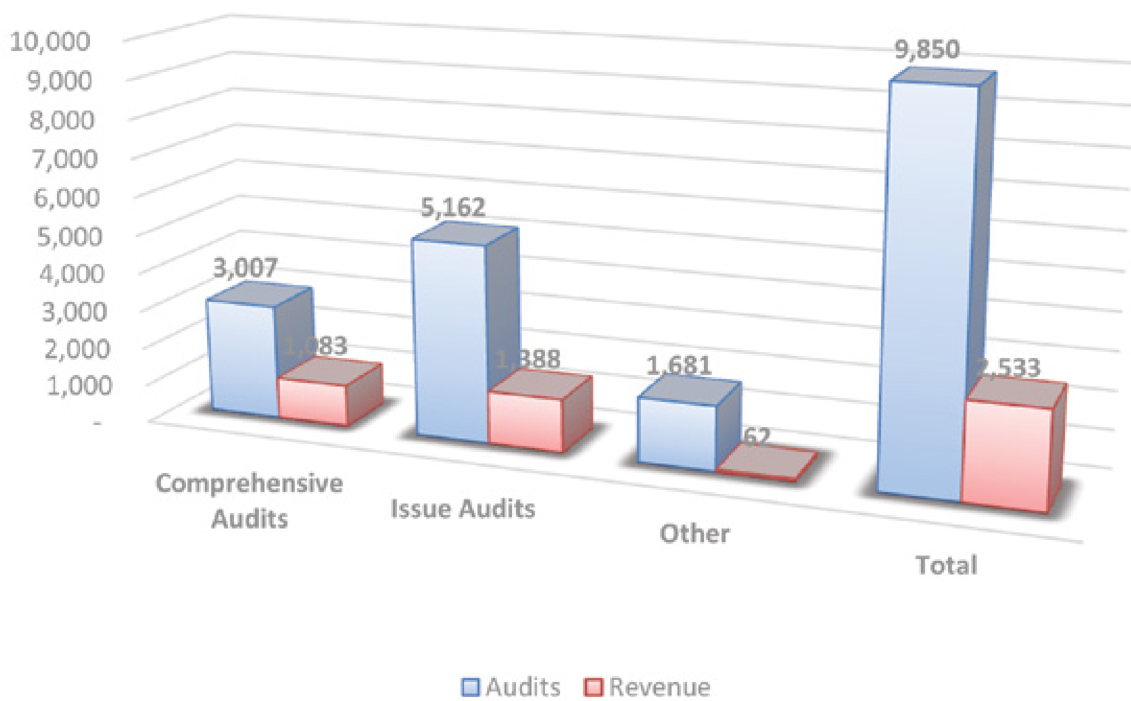
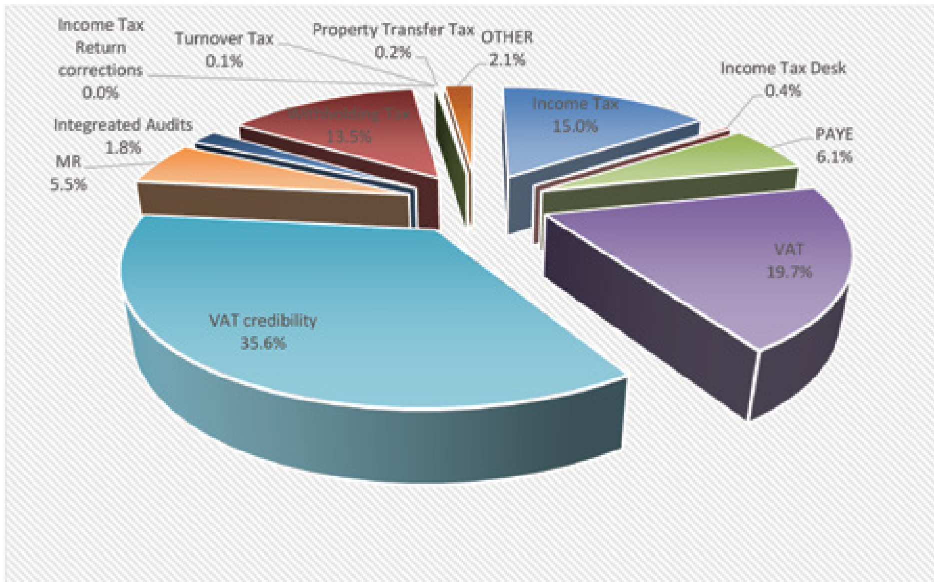


Figure 5 depicts audit performance in terms of tax type. VAT credibility audits yielded the largest share of additional tax accounting for 36 percent of the total yield followed by Value Added Tax control audits at 20 percent; Income Tax 15 percent; and Withholding Tax at 13 percent. Other tax type audits contributed meagre amounts individually accounting for total difference of 16 percent.

Figure 5: Audit Performance by Tax Type



Block Management System

The Authority continued to use the Block Management System for compliance management of small taxpayers with a particular focus on the Copperbelt region. In Ndola, activities were focused on block creation, return and registration compliance checks, taxpayer education and Withholding Tax assessments. Block creation involved identification of geographical areas and zoning them into blocks. This was followed up with taxpayer registrations for each block and for those already registered, conducting further verifications on the taxpayers' compliance with return filing and payments. Three blocks are thus currently managed by Ndola and these include Ndola Central Business District, Ndola Industrial area and Luanshya Blocks. Enforcement activities in Kitwe concentrated on providing taxpayer education and monitoring return filling compliance.

A total of 1,081 taxpayers were managed under Ndola offices out of which 180 taxpayers registered in 2017. Turnover Tax, Income Tax, VAT and PAYE, recorded return compliance rates of 75 percent; 85.0 percent; 94.0 percent and 90.0 percent in 2017 compared with 72.0 percent; 69.0 percent; 87.0 percent and 74.0 percent recorded in 2016 respectively. Kitwe on the other hand, has a total of 396 tax accounts registered in the Blocks. Return filing in 2017 stood at 87.4 percent; 82.7 percent and 82.5 percent for Income Tax, PAYE and TOT respectively.
The Lusaka Block Management operations were replaced with the Cash Receipts and Invoice Payments Enforcement Strategy which focuses on the mandatory use cash registers and adherence to displaying tax registration certificates.

Taxpayer Education Activities

In the year 2017, a number of tax amendments and new administrative rules were introduced. Among these was legislation for Taxpayer Identification Number (TPIN) requirement for all bank accounts holders; introduction of the Withholding VAT (WVAT), Skills Development Levy and the Tourism Levy. All these introductions entailed a robust tax education strategy to reach out to the taxpayer in order to assist them meet their tax obligations. In view of this, several taxpayer education campaigns were undertaken through radio, social media and tax clinics.

BUSINESS DEVELOPMENT

Enterprise Risk Management and Business Continuity Planning
Risk management implementation was at the centre of the Corporate Strategic Plan (CSP) 2016-2018 execution in line with the ZRA risk management framework where risks to the 2017 outputs and targets were identified and mitigated.

The process of cascading risk management to lower levels continued in 2017 by the introduction of Risk registers at unit and station level. Risk management training in using the activity/process based risk identification and business impact analysis for business continuity process prioritisation was conducted for staff across the Authority. The Authority monitored a total of 80 Key Risk Indicator (KRI) of which 13 were at corporate level and the rest from the business units.

The major risks during the year included systems down time for

TaxOnline and ASYCUDAWorld, low taxpayers compliance across some tax segments and smuggling. In this regard, the Authority embarked on a programme of upgrading ICT disaster recovery to a robust and more resilient environment to ensure all future system challenges are better responded to and managed in order to minimise the impact on business operations.

Enhancements On Taxonline And Uptake Of E-Services

The use of TaxOnline has continued to present many benefits to ZRA and taxpayers which has made service delivery easier and more efficient. In this regard, ZRA continued to expand the services provided by the TaxOnline system during the year. The major developments under TaxOnline in 2017 were:

• The roll-out of the Amnesty functionality for the management of the Tax Amnesty applications on penalties and interests.

• Automation of the VAT deferment application process which is now interfaced with ASYCUDAWorld.

• Implementation of fast track TPIN registration on the web portal to improve the uptake of TPIN registrations.

With regard to uptake of e - services in 2017, a total of 1,952,004 returns were filed electronically while 47,443 returns were filed manually. Portal sign ups increased to 47,827 in 2017 from 24,502 in 2016. There was a massive increase in e-registration applications received in 2017 with a total of 248,979 applications being processed electronically compared to 47,907 manual applications processed in the same period.

Table 6: Use of e-Services in 2017 and 2016

Description of Activity		2017	2016	% Change
1. Sign up		47,827	24,502	**95.2%**
2. Registrations by Type				
i)	*Electronic*	248,979	29,360	748.0%
ii)	*Manual*	47,907	18,525	159.6%
3. Return Filing by Type				
i)	*Electronic*	1,952,004	853,520	129.7%
ii)	*Manual*	47,443	57,357	(17.3)%

ASYCUDAWorld System Upgrade

During the year in review, a number of developments were undertaken on the ASYCUDAWorld. These included the following;

• **Automation of Stations**

During the year, Jimbe and Chavuma stations were automated bringing the total number of automated stations to 28.

• **System Based Controls**

Some system based controls were also implemented on the ASYCUDAWorld system. These included the following;

• A control to link consignees to specific clearing agents of their choice to avoid misuse of TPINs; and

• A consolidated finder for transits.

• Single Window

The concept of CPC was also introduced for other Government agencies under the Single Window project, particularly for the Zambia Bureau of Standards (ZABS). Katimamulilo, Kazungula, Livingstone, Victoria Falls, Ndola and Nakonde stations were connected to the ZABS CPC, while access to the rest of the stations is facilitated through a virtual configuration on the other Government agencies selectivity platform.

The Voucher of Exemption module for clearing Government importations was piloted starting with the Ministry of Finance, Ministry of Works and Supply and the Ministry of Health.

System Interfaces

The development of the interface between ASYCUDAWorld and the Mineral Output Statistical Evaluation System (MOSES), and between ASYCUDAWorld and TaxOnline were completed and this is expected to enhance compliance management. In addition, the Export Permit Module was implemented on MOSES and an interface with the Mineral Cadastre Administration Software is currently under development and is expected to be rolled out in 2018.

• External Email Notifications

The functionality that enables the sending of emails to external parties from ASYCUDAWorld was developed and completed during the year. Notifications can now be sent to importers, exporters and clearing agents to facilitate the quick clearance of goods.

E-Payment

During the year, the Bank of China was connected to the live environment for both ASYCUDAWorld and TaxOnline servers. This brought the total number of commercial banks with both ASYCUDAWorld and TaxOnline to 16. These are Access Bank, Atlas Mara, Barclays Bank, Bank of China, Cavmont Bank, Citi Bank, EcoBank, First Alliance Bank, First National Bank, First Capital Bank, Indo-Zambia Bank, Investrust Bank, Stanbic Bank, Standard Chartered Bank, United Bank for Africa and Zambia National Commercial Bank.

Further, out of the above listed commercial banks, six (6) namely, Access Bank, Barclays Bank, Cavmont Bank, EcoBank ,Finance Bank and the Zambia National Commercial Bank, had gone a step further and extended the e-payment platform to walk-in clients who are non-account holders.

Airtel Mobile Money launched the first ever mobile tax payment solution in Zambia in the year under review. These developments are part of the Authority's continued work to enable taxpayers access more convenient payment platforms from any part of the country.

Modernisation of Trade Logistics

The Authority continued with the implementation of strategies to improve trade facilitation by modernising trade logistics in the year under review. The following key activities were undertaken in 2017:

• The establishment of regional Centralised Processing Centres (CPCs) continued after the successful establishment of the Chirundu CPC in 2016. Livingstone regional CPC was established in 2017 with four stations namely Livingstone Port Office, Kazungula, Katima Mulilo and Victoria Falls. Further, the Nakonde regional CPC and the Kenneth Kaunda International Airport CPC were also established, while the Lusaka Port was connected to Lusaka CPC. The Kabwe CPC was closed and all stations under it were moved to Lusaka CPC.

• The automated Import and Export Permit Module under ASYCUDAWorld was piloted with the Ministry of Agriculture under the Single Window project. The electronic Voucher of Exemption was also piloted in the year.

• ASYCUDAWorld email to taxpayers (importers and exporters) and their clearing agents on entry processing stages was implemented to enhance monitoring by taxpayers.

• Customs Electronic Licensing System (CELS) for electronic processing of clearing agents licence applications was piloted in the year under review.

STAKEHOLDER RELATIONS

Cooperating Partner Relations

In its quest to improve operational efficiency and service delivery, the Authority continued to collaborate with various cooperating partners during the year under review. The major cooperating partners and their areas of co-operation include the following:

The Public Financial Management Reform Programme (PFMRP)
The multi-donor support under the PFMRP administered by the World Bank continued covering a number of projects all aimed at enhancing compliance and broadening the tax base. Key milestones attained during the year are as follows:

• Under the MVCMP, MOSES was implemented and 12 large scale mining companies began the online submission of production returns. ZRA now has access to production volumes in electronic form that can be used to verify export volumes.

• The rolling out of the Case Management System brought about enhanced efficiencies such as tracking of cases without physical file check.

• Communication tools were installed in various locations resulting in enhanced real time exchange of intelligence information on smuggling activities. This has led to a reduction of both operational costs and processing times of investigations.

• A forensic laboratory with trained officers became fully operational and ZRA is now able to obtain information from electronic systems that can form the basis of assessments and ultimately prosecution. Additionally, various other investigative tools were procured which have improved the amount and quality of evidence collected on tax fraud cases.

• The electronic transit monitoring system was piloted at Kazungula, Chirundu, Nakonde and Kasumbalesa and has aided efforts towards preventing transit fraud.

US Treasury - Office of Technical Assistance (OTA)

During the year under review, the US Treasury undertook several technical assistance missions. The support focused on the timely payment of taxes through successfully consolidating debt management and recovery activities within the ZRA Finance Division and enhancing overall debt recovery processes and procedures. Streamlining of debt management processes and appointments of tax agents as part of capacity building in the Medium Tax Office more than doubled the recovery of debt and reduced the amount of delinquent debt. Support was also given to the investigations function on the development of processes and procedures documentation for the Digital Forensic Unit as well as for the Business Intelligence and Refund Fraud Units. Other support targeted effective tax dispute resolution in the ZRA's appeals process. The support has helped to create a non-judicial outlet for initial review of taxpayer appeals which is a critical component of creating a tax system with credibility among taxpayers. There was also support towards revenue management through customs valuation in accordance with good international practice. Work to link current TADAT results with the ZRA Balanced Scorecard in such a way that ZRA would need to synchronise its existing organisational performance review process with the standards outlined in TADAT also received some technical support from the US Treasury.

Deutsche Gesellschaft fur International Zusammenarbeit (GIZ)

The GIZ support programme supported the Authority in implementing Queue Management Systems and refurbishment of the advice centres at Lusaka, Kitwe and Ndola. The Lusaka and Kitwe Taxpayer service centres have since been commissioned while the Ndola Taxpayer Service Centre was expected to be commissioned in January 2018 as all the work had been done.

The GIZ supported the Authority in developing the Small and Medium Enterprise Taxation Compliance Strategy 2018-2020. In 2017, the German government through the Bavarian Taxation Administration trained 40 auditors in the application of indirect methods within the SME sector and in the application of appropriate audit templates.

Furthermore, GIZ also supported the Authority in the development of a mobile taxation platform through the Zambia Mobile E-Taxation Project (ZAMeT).The project's blueprint was done and the software is under development. Full project implementation is expected to be completed by end-2019. GIZ also supported the Authority in the ongoing data cleaning exercise in the Domestic Taxes Division.

Other Local Partners

In conducting its work, ZRA continued to collaborate with various governmental and non-governmental agencies. These included the Ministry of Finance, other Government Ministries and Departments, the Bank of Zambia, Radiation Protection Authority, Zambia Public Procurement Authority, ZABS, commercial banks, the Central Statistical Office (CSO), Zambia Development Agency (ZDA), the Anti-Corruption Commission (ACC), the Financial Intelligence Centre (FIC), the Drug Enforcement Commission (DEC), the Road Development Agency (RDA), the Road Traffic and Safety Agency (RTSA), the Patents and Companies Registration Agency (PACRA) and the Zambia Police Service (ZPS). The National Assembly of Zambia and the Office of the Auditor General also engaged with ZRA through their oversight roles.

Corporate Social Responsibility

In an effort to create an enabling environment suitable for sustainable tax mobilisation, ZRA in the year 2017 took a robust approach towards Corporate Social Responsibility (CSR). In line with the CSR Policy which focuses on four key areas namely: taxpayers, employees, community and the environment, the CSR activities targeted the vulnerable members of society, staff as well as responding to emergencies that happened in the year under review.

Further, staff mobilised their personal financial resources to help the victims of the fire that gutted the largest trading place in the country-Lusaka City Market. The staff contributed a total of K276, 872.94.

The Authority also donated 63 seized vehicles to key Government Ministries, Departments/institutions, charitable organisations and hospitals. The recipients of the donated vehicles included the Zambia Police Service, Immigration Department, Ministry of Health, Disaster Management and Mitigation Unit (DMMU), DEC, Zambia Correctional Services, Zambia Law Development Commission, St. John Paul II Hospital and the Office of the President.

The Authority also donated assorted groceries and food stuffs to charitable organisations in various parts of the country. Among the beneficiaries of groceries were St. John Paul II Hospital in Lusaka, Maramba Old People's Home in Livingstone and Mambilima Special School in Mwense District.

With regard to staff, the Authority continued with various initiatives that aimed at promoting staff wellness such as promotion of sports activities and networking by participating in the Southern Africa Inter Revenue Games which were hosted by the Authority in April 2017.

TRENDS IN DOMESTIC AND GLOBAL ECONOMIC INDICATORS

TRENDS IN DOMESTIC AND GLOBAL ECONOMIC INDICATORS

Tax revenue collections are a function of both domestic and global economic variables such as GDP, inflation, exchange rate, interest rates and commodity prices, among others. The movement in these variables, among other factors, is not only cardinal in formulating or determining tax revenue projections but also in explaining the outturn of revenue collections.

The Global Economy in 2017

According to the International Monetary Fund (IMF), the global economy grew by 3.7 percent in 2017 compared to 3.2 percent in 2016. The rebound in growth has generally been broad based, with notable upside surprises in the Euro-zone and China. On the commodities market, adverse weather events in the United States, the extension of the OPEC+ agreement to limit oil production, and geopolitical tensions in the Middle East supported crude oil prices which rose by about 20 percent to over $60 per barrel at the end of 2017. The increase in fuel prices raised headline inflation in advanced economies, but wage and core-price inflation remained weak.

The Domestic Economy In 2017

In line with the global economic performance, the domestic economy posted slight recovery in 2017 with a real Gross Domestic Product (GDP) growth of 4.1 percent in 2017 compared to 3.8 percent recorded in 2016. This growth was mainly driven by the recovery of metal prices on the international market and also stability in domestic economic factors such as inflation, the Kwacha exchange rate against major trading currencies and improvement in the supply of electricity.

The main drivers of economic growth in 2017 were the Wholesale and retail trade, Construction and Mining and Quarrying sectors which accounted for 21.3 percent, 11.0 percent and 10.4 percent of the real GDP, respectively. These were followed by the Agriculture, forestry and fishing; Manufacturing; Education; and Public administration and defense, compulsory social security sector whose individual share in GDP was also above 5 percent. The contribution of each one of the 12 remaining sectors was below 5 percent and collectively summed up to 22.7 percent of real GDP (See Table 7 below).

Table 7: Growth and Share of Real GDP in 2017 and 2016

KIND OF ECONOMIC ACTIVITY	Percentage real growth		Percentage share of real GDP	
	2017	**2016**	**2017**	**2016**
Agriculture, forestry and fishing	16.6	3.7	8.2	7.3
Mining and quarrying	3.0	7.3	10.4	10.5
Manufacturing	4.4	1.9	8.0	8.0
Electricity generation and supply	18.5	(13.6)	1.6	1.4
Water supply; sewerage, waste management and remediation activities	(3.7)	(3.4)	0.2	0.3
Construction	6.4	10.2	11.0	10.7
Wholesale and retail trade; repair of motor vehicles and motorcycles	0.7	(0.1)	21.3	22.1
Transportation and storage	7.8	(2.2)	3.4	3.3
Accommodation and food service activities	6.0	1.3	1.9	1.8
Information and communication	(13.2)	17.4	3.3	3.9
Financial and insurance activities	0.7	(2.4)	3.5	3.7
Real estate activities	2.9	3.2	3.4	3.4
Professional, scientific and technical activities	7.3	6.4	1.9	1.8
Administrative and support service activities	6.0	5.3	0.9	0.9
Public administration and defense; compulsory social security	2.8	9.7	5.2	5.2
Education	6.7	4.7	7.7	7.5
Human health and social work activities	17.4	1.6	1.5	1.3
Arts, entertainment and recreation	(4.0)	0.5	0.4	0.4
Other service activities				
Real GDP Growth	**4.1**	**3.8**		

Source: CSO

Most of the economic sectors posted higher growth in 2017 relative to 2016. Notable among these were agriculture, forestry and fishing; manufacturing; electricity generation and supply; construction; wholesale and retail trade; repair of motor vehicles and motorcycles.

On the other hand, the mining and quarrying; water supply; sewerage, waste management and remediation activities; construction; real estate activities; public administration and defense, compulsory social security; and other service activities decelerated by 4.3 percentage points, 0.4 percentage points, 3.8 percentage points, 0.3 percentage points, 6.9 percentage points and 0.4 percentage points, respectively. Further, the Information and communication and the Arts, entertainment and recreation sectors shrunk in 2017 by recording negative growth rates.

Inflation

The annual inflation rate declined to single-digit levels recording an average of 6.6 percent in 2017 which was 11.6 percentage points lower than the 18.2 percent posted in 2016. The minimum annual inflation rate of 6.1 percent was recorded in December 2017, while the maximum annual inflation rate of 7.0 percent was posted in January 2017

(See Figure 4).
The fall in inflation from the onset of the year was influenced by the reduction in prices of both food and non-food items and was further improved by the stability of the Kwacha exchange rate against major trading currencies.

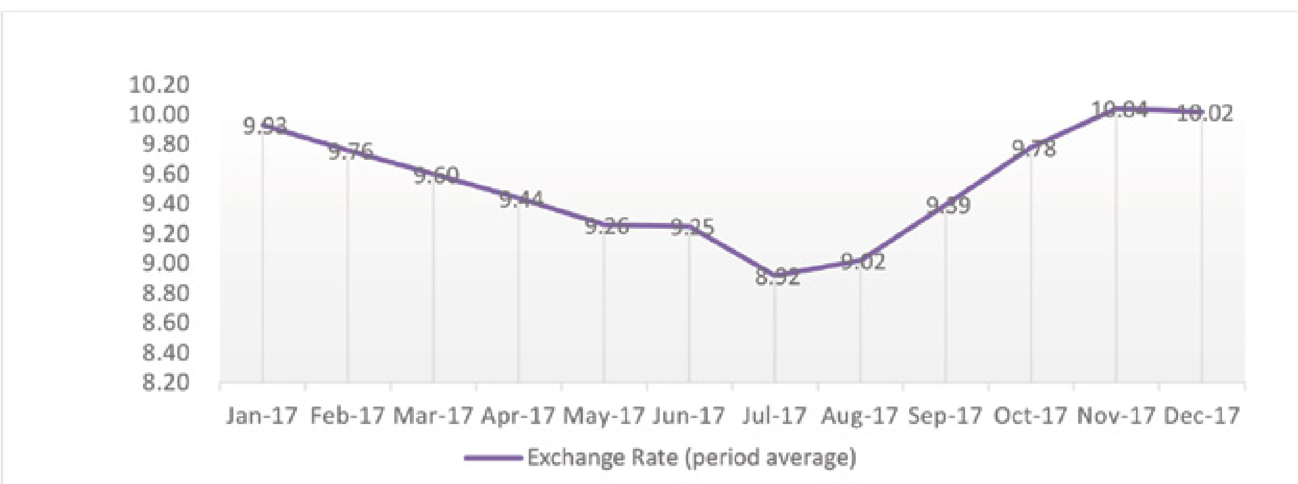
Interest Rates

The Bank of Zambia policy rate was reduced to an average of 12.6 percent in 2017 from an average of 15.5 percent in 2016. In response to this movement, commercial banks' lending rates slightly reduced to an average of 26.9 percent in 2017 from 27.9 percent in 2016 (see Figure 4).
Figure 6: Inflation and Interest Rates in 2017
Source: Bank of Zambia

Exchange Rates

In 2017, the Kwacha exchange rate against the US Dollar appreciated by 0.7 percent to an average of K9.53 per US Dollar from an average of K10.31 per US Dollar in 2016. This movement was largely influenced by the increase in the price of copper, the country's major foreign exchange earner, on the international market and the reduced demand for US Dollars to finance electricity import bills. From the onset of the year, the Kwacha exchange rate was on an appreciating trend until after mid-year when it began depreciating with the year's highest average exchange rate of K10.04 per US Dollar being posted in November 2017 (See Figure 7).

Figure 7: Exchange Rate Movement in 2017
Source: Bank of Zambia



Commodity Prices

In 2017, the price of copper on the London Metal Exchange (LME) was at an average of US$6, 161.9 per metric tonne, and was 26.7 percent above the average price of US$4, 862.3 per metric tonne in 2016. The average outturn in the price of cobalt on LME increased by 118.9 percent to US$55, 495.7 per metric tonne in 2017 from an average of US$25, 351.4 per metric tonne in 2016. Given that these metals are Zambia's major export commodities, the increase in their prices on the international market improved the overall trade balance.

Notwithstanding, the price of crude oil, Zambia's major import commodity, registered unfavourable outturn in the commodity markets during 2017. The price of crude oil increased by 26.3 percent to an average of US$53.3 per barrel in 2017 from an average of US $42.2 per barrel in 2016, a movement which exerted pressure on the country's balance of payments (See Table 8).

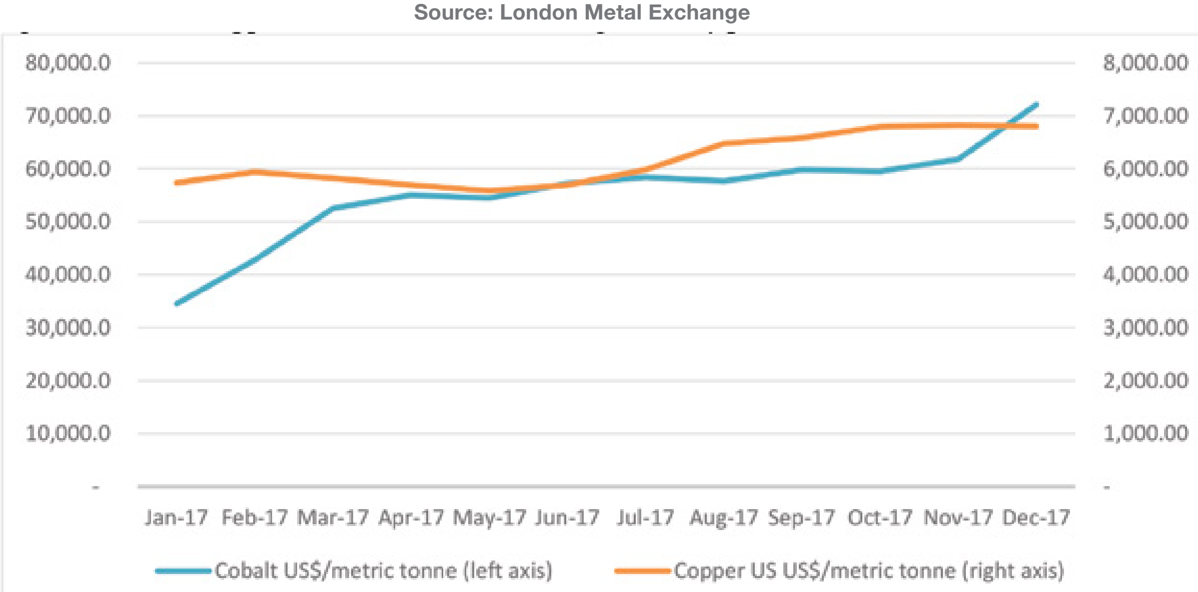
Table 8: Commodity Prices in 2017 and 2016

	Copper US$ per metric tone		Cobalt US$ per metric tone		Crude oil US$ per barrel	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Average	6,161.9	4,862.3	55,495.7	25,351.4	53.3	42.2
High	6,824.6	5,665.4	72,131.6	31,432.5	61.0	52.7
Low	5,590.7	4,461.9	34,514.3	22,291.7	46.9	29.0

Source: London Metal Exchange and Bank of Zambia

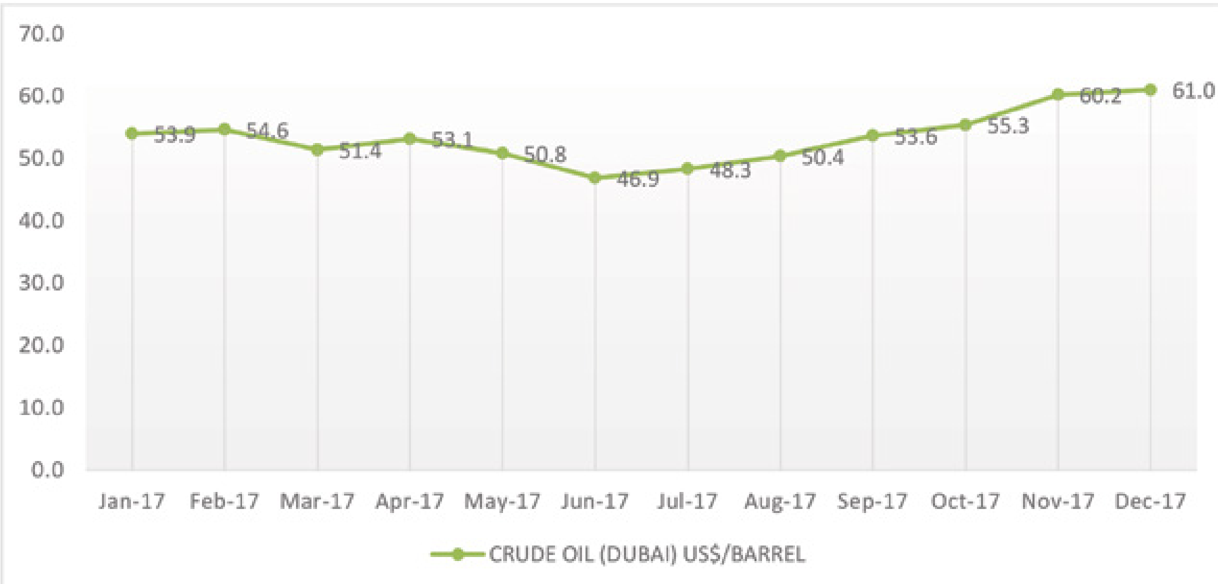
Figure 8 below depicts the monthly series of metal prices during 2017. It is observed that both the price of copper and that of cobalt tended to steadily increase during the year.

Figure 8: Price of Copper and Cobalt in 2017 (Average monthly prices)
Source: London Metal Exchange



The price of crude oil exhibited an upward trend during 2017, opening the year at US$53.9 per barrel and closed at US$61.0 per barrel (See figure 9 below).

Figure 9: Average monthly price of Crude Oil in 2017
Source: Bank of Zambia



TAX POLICY SUPPORT

Tax Policy Review Committee

The Authority, in 2017, continued with its active participation in the development, review, design and formulation of tax policy. This was through provision of tax policy advice to the Minister of Finance and participation in the Tax Policy Review Committee meetings. Through these meetings, the Authority proposed a number of tax policy and administrative measures aimed at enhancing domestic resource mobilisation. A number of these proposals were adopted in the 2018 National Budget. The Authority also provided draft legislation for tax related measures. Furthermore, the Authority participated in the preparation of the 2018 tax revenue estimates and the drafting of the 2018 National Budget Address

Provision of Revenue Data and Information

The provision of revenue and trade statistics to Government is one of the main responsibilities of the Authority under the Zambia Revenue Authority Act. In keeping with this responsibility, the Authority provided statistics to Government ministries and departments to inform policy formulation and decision making. The main consumers of revenue statistics were the Ministry of Finance, the National Assembly, universities, research institutes, students and the media. On the other hand, the main consumers of trade statistics were the Central Statistical Office, the Ministry of Commerce, Trade and Industry, the Bank of Zambia, Development Partners, and other public and private stakeholders.

Furthermore, in order to improve the quality of reporting on revenue and trade statistics, the Authority conducted a workshop for business editors and business reporters from both public and private media to enlighten them on the operations of the Authority. This was with a view of engaging them as partners in taxpayer education and information dissemination in general.

Budget Legislation

Following the presentation of the 2018 national Budget to the National Assembly in November 2017, for the fiscal year 1st January 2018 to 31st December 2018, Parliament approved a number of measures to support the Budget. In order to give effect to these changes, Parliament passed the Property Transfer Tax (Amendment) Act, the Value Added Tax (Amendment) Act, the Customs and Excise (Amendment) Act and the Income Tax (Amendment) Act containing 45 tax measures, which took effect on 1st January 2018.

The Authority also published and distributed Budget Highlights to explain the tax changes announced by the Honourable Minister of Finance in his Budget Address. The Budget Highlights were distributed to the public at all post-budget engagements. Further, to allow members of the public have easy access to the Budget information, the Budget Address, the Budget Highlights and the amended Acts were all posted on the ZRA Website. The Authority was also part of the Government delegations that went round the country to discuss and explain the implications of the budget changes.

Ministerial and Parliamentary Services

As a public body, the execution of the Authority mandate involves interaction with other Government ministries, quasi-government institutions and agencies, Parliament and other stakeholders. The interactions were through exchange of revenue and trade statistics, response to information requests and exchange of intelligence which is critical to operations of the Authority. During the year, the Authority also provided Parliamentary briefs on matters of interest to the House including responses to Parliamentary questions.

REVIEW OF REVENUE PERFORMANCE

Structure of the Revenue System in 2017

In 2017, the share of VAT in tax revenue increased by 10.3 percentage points to a contribution of 35.8 percent from 25.5 percent in 2016, mainly attributable to the withholding VAT mechanism which significantly increased the collections of output VAT. On the other hand, the contribution of income taxes and excise taxes declined by 9.2 percentage points and 2.3 percentage points, respectively (See Figure 10).

Income taxes accounted for the largest share of tax revenue with a contribution of 48.5 percent, followed by VAT at 35.8 percent and then excise taxes at 8.2 percent. Customs and export duties together accounted for 7.6 percent of tax revenue collections compared to 6.3 percent contribution in 2016. This was mainly explained by the introduction of new policies in customs duty such as the Selected Goods Surtax.

In the income tax category, PAYE contributed the largest share at 46.0 percent, followed by company income tax at 23.7 percent and then withholding taxes at 17.4 percent. Mineral royalty accounted for 12.9 percent of income tax collections compared to 17.0 percent in 2016.

Domestic VAT made up 40.5 percent of the total net VAT collected in 2017, up from 1.2 percent recorded in 2016. This growth in net domestic VAT collections was mainly due to the implementation of the withholding VAT mechanism. The share of import VAT in total net VAT declined to 59.5 percent in 2017 from 98.8 percent in 2016.

Further, for the combined collections of customs and export duties, 99.5 percent was attributed to customs duty whereas export duty only accounted for 0.5 percent.

Tax Revenue Performance in 2017

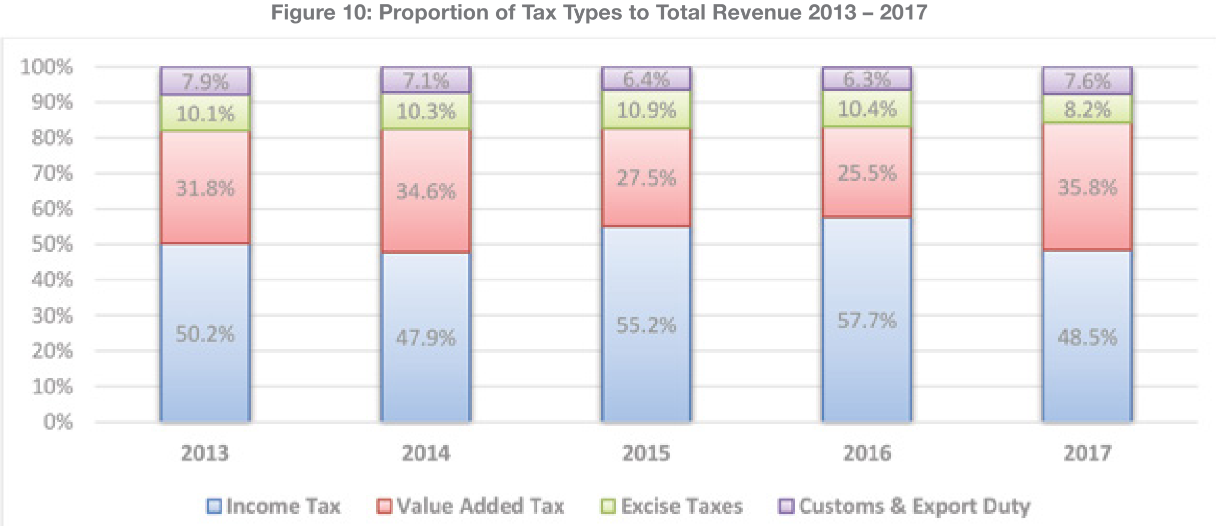
During the year, the Authority collected K45, 868.2 million in gross taxes with the level of refunds standing at K6, 718.5 million thereby posting a net tax collection of K39, 149.7 million against the target of K37, 622.5 million. This outturn was K1, 527.2 million or by 4.1 percent above target. This surplus was largely attributed to the good performance of domestic VAT.

In the income tax group, underperformance was recorded under company tax and PAYE. Specifically, these tax types were below target by K402.2 million and K1, 145.9 million, respectively. On the other hand, withholding tax and mineral royalty were K185.6 million and K544.3 million above target, respectively.

The insurance premium levy was K14.2 million above target, while the skills development levy was K78.3 million below target.

During the year under review, excise duties and trade taxes underperformed. In particular, excise duties were K1, 529.7 million or 32.5 percent below target. Trade taxes namely import VAT, customs duty and export duty were also below their

Figure 10: Proportion of Tax Types to Total Revenue 2013 – 2017



respective targets by K453.8 million, K210.7 million and K54.7 million.

However, domestic VAT posted a net outturn of K5, 630.9 million and was K4, 877.8 million or 647.7 percent above its target (See Table 9 below).

Table 9: Tax Revenue Performance in 2017 (K' million)

	Actual Outturn	Target	Variance of actual vs target	Percentage variance of target	Percentage of GDP
Total Revenue	**39,149.7**	**37,622.5**	**1,527.2**	**4.1%**	**16.7%**
1. Tax Revenue	**38,899.3**	**37,074.4**	**1,824.9**	**4.9%**	**16.6%**
A. Income taxes	**18,829.7**	**19,701.3**	**(871.7)**	**(4.4)%**	**8.0%**
1. Company tax	4,456.0	4,858.3	(402.3)	(8.3)%	1.9%
Non Mining Company Tax	3,388.4	3,630.4	(242.0)	(6.7)%	1.4%
Mining Company Tax	1,067.6	1,227.9	(160.3)	(13.1)%	0.5%
2. PAYE	8,669.4	9,815.3	(1,145.9)	(11.7)%	3.7%
3. Withholding taxes & others	3,269.0	3,083.4	185.6	6.0%	1.4%
4. Mineral royalty tax	2,435.2	1,890.9	544.3	28.8%	1.0%
Insurance Premium	67.6	53.4	14.2	26.6%	1.0%
C. Excise taxes	**3,170.3**	**4,700.0**	**(1,529.7)**	**(32.5)%**	**0.0%**
1. Import Excise Duties	596.7	1,393.1	(796.5)	(57.2)%	1.3%
1. Local Excise Duties	1,566.4	1,910.9	(344.5)	(18.0)%	0.3%
2. Rural Electrification Levy	110.7	200.3	(89.6)	(44.7)%	0.7%
3. Import Fuel Levy	463.0	667.0	(204.0)	(30.6)%	0.0%
3. Local Fuel Levy	401.2	489.5	(88.3)	(18.0)%	0.2%
4. Carbon Tax	32.2	39.1	(6.9)	(17.6)%	0.2%
D. VAT on domestic goods	**5,630.9**	**753.1**	**4,877.8**	**647.7%**	**0.0%**
E. Trade taxes	**11,200.9**	**11,920.0**	**(719.1)**	**(6.0)%**	**2.4%**
1. VAT on imports	8,256.5	8,710.3	(453.8)	(5.2)%	4.8%
2. Customs duty (Import tariffs)	2,930.6	3,141.3	(210.7)	(6.7)%	3.5%
3. Export duties	13.7	68.4	(54.7)	(79.9)%	1.2%
Export Duty on Scrap metals	4.5	-	4.5	100.0%	0.0%
Export Duty on Cotton seed	2.8	-	2.8	100.0%	0.0%
Export Duty on Copper Concentrate	6.4	68.4	(62.1)	(90.7)%	0.0%
2.Non Tax revenue					0.0%
Skills Development Levy	155.9	234.2	(78.3)	(33.4)%	0.0%
Tourism Levy	11.8	-	11.8	100.0%	0.1%
Motor Vehicle Fees	82.7	82.9	(0.2)	(0.2)%	0.0%
Border Infrastructure Fee	-	231.0	(231.0)	(100.0)%	0.0%

The performance of the individual tax types against the 2017 target and over the last five years is discussed below:

Income Taxes

The performance of income taxes as a group was unfavourable recording an outturn which was 4.4 percent below target in 2017. This was as a result of lower than programmed collections under company tax, PAYE and mineral royalty. However, when compared to collections in 2016, income tax collections increased by 4.6 percent in 2017.

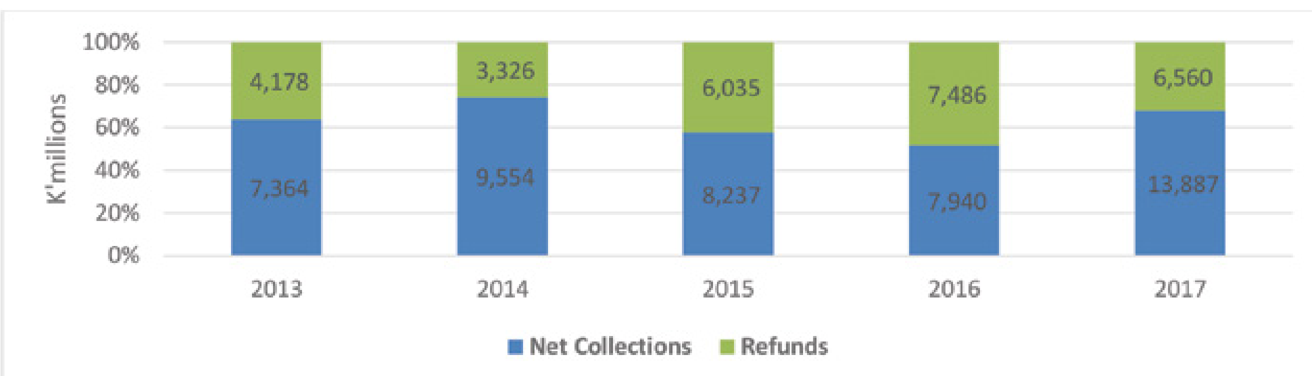
Figure 11: Trend in Income Taxes 2013 – 2017

Value Added Tax

During the year, K6, 560 million was collected in net VAT (domestic and import VAT) against a target of K9, 463.3 million and was K2, 903.3 million or 30.7 percent below target. While domestic VAT was above the target by 647.7 percent, import VAT was below target by 5.2 percent. On the domestic front, VAT collections improved due to the implementation of withholding VAT, while import VAT was adversely affected by a lower than anticipated growth in the taxable base.

However, it should be noted that overall, net VAT collections in 2017 were above the collections recorded in 2016 by 74.5 percent (See Figure12).

Figure 12: Trend in VAT 2013 – 2017



Excise Duties

The unfavourable performance of excise duty was largely due to declined collections of local excise duties on fuel as a result of the effect of Statutory Instrument No 21 of 2016 that suspended import excise duty on fuel that resulted in the reduction of uplifts from Indeni as some oil marketing companies opted to import. The tax was also dampened by reduced imports of major excisable products including motor vehicles and cigarettes, owing to the general slowdown in economic activity. In comparison to 2016, excise duty collections in 2017 decreased by 2.6 percent.

Figure 13: Trend in Excise Taxes Collections, 2013 – 2017 (K 'million)

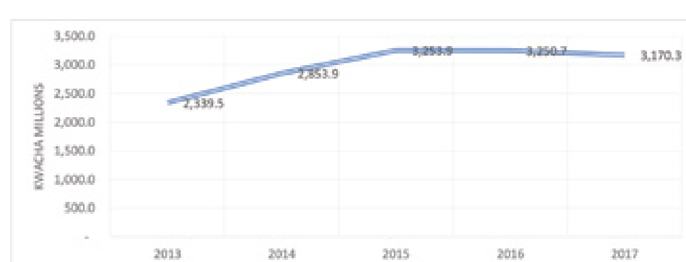
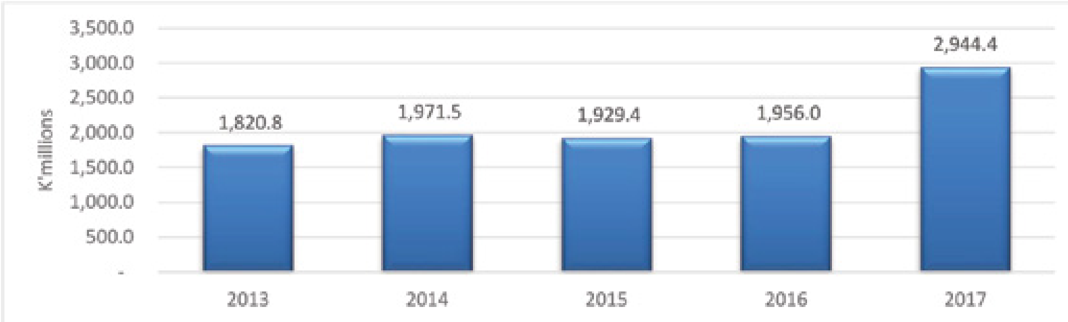


Figure 14: Customs and Export Duty Collections, 2013 – 2017 (K' million)



Customs and Export Duties

Customs and export duties together recorded K2, 944.4 million in total collections against a combined target of K3, 209.7 million, thus posting a deficit of K265.3 million. This deficit was largely explained by lower collections under customs duty which were as a result of lower than projected importations of taxable products. However, the collections of this group in 2017 were higher than recorded in 2016 as depicted in Figure 14.

Performance of Mining Sector Taxes

Mining tax revenue as a percentage of total tax revenue fell by 5 percentage points to 9.0 percent in 2017 from 14.0 percent in 2016. In terms of contribution, mineral royalty accounted for 69.4 percent of the total mining tax revenue, then company tax at 30.4 percent and lastly export duty on mineral ores and concentrates at 0.2 percent. As a percentage of GDP, mining tax revenues declined to 1.5 percent in 2017 from 2.0 percent that was registered in 2016 (See Figure 15).

Figure 15: Tax Revenues from the Mining Sector, 2013 to 2017 (K' millions)

Contribution Of Tax Types To Gdp

The ratio of total tax revenue to GDP was recorded at 16.6 percent in 2017 which was 2.2 percentage points above the 14.4 percent posted in 2016. The increase in the tax to GDP ratio was largely explained by efficiency gains in revenue collections due to the implementation of withholding VAT mechanism.

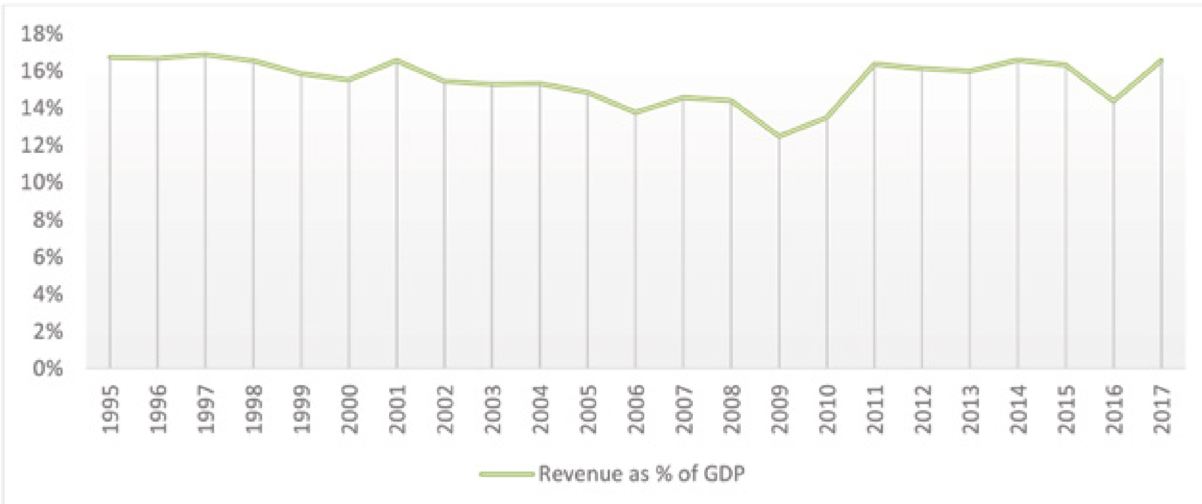
In comparison to 2016, the ratio of the main tax categories to GDP in 2017 was mixed. In particular, the ratio for income taxes decreased to 8.0 percent in 2017 from 8.3 percent in 2016. On the other hand, the ratio for domestic goods and services increased to 3.7 percent in 2017 from 1.5 percent in 2016, while trade taxes increased to 4.8 percent in 2017 from 4.5 percent in 2016. This is shown in Table 10.

Table 10: Total Revenue as Share of GDP in 2017 and 2016

Tax Type	Percentage of GDP in 2017	Percentage of GDP in 2016
Income Tax	**8.0%**	**8.3%**
Company Tax	1.9%	1.9%
Pay As You Earn (PAYE)	3.7%	3.8%
Withholding Tax	1.4%	1.3%
Mineral Royalty	1.0%	1.4%
Domestic Goods & Services	**3.7%**	**1.5%**
Excise Duty	1.3%	1.5%
Domestic Value-Added Tax (VAT)	2.4%	0.0%
Trade Taxes	**4.8%**	**4.5%**
Import VAT	3.5%	3.6%
Import Duty	1.2%	0.9%
Export Duty	0.0%	0.0%
Insurance Premium Levy	**0.0%**	**0.0%**
Total Revenue as % of GDP	**16.6%**	**14.4%**
GDP (K' million)	**234,932.5**	**216,826.3**

The trend of tax revenue to GDP ratios over the last 23 years is depicted in Figure 16. Over this period, the tax revenue to GDP ratio has averaged at 15.5 percent.

Figure 16: Trend in Tax Revenue to GDP ratio 1995-2017



Trend in Collection of individual Tax Types and Total Revenue
The ratio of each of the tax types to GDP as well as total tax revenue from 1995 to 2017 is depicted in figures 16 to 22. As shown in the figures, it is evidenced that income taxes as a proportion of GDP have largely exhibited an upward movement since 1995, reflecting the responsiveness of the Zambian tax system in netting in the growth in income that the country has experienced over the years. Specifically, company income tax, mineral royalty and withholding tax have exhibited upward trends during this period, while PAYE showed a constant trend.

Over the years, consumption taxes, namely excise duties, import tariffs and VAT have mainly exhibited a downward trend as a ratio of GDP. The ratio of VAT to GDP has averaged at 4.4 percent over the same period with a moderate upward trend observed from 2012. Since 1995, the ratio of excise taxes to GDP has averaged at 2.0 percent exhibiting a declining trend largely explained by increased tax expenditures especially on the import side. Similarly, import tariffs have been on a downward trend mainly due to increased volumes of imports under trade protocols ratified by Zambia.

The overall tax as a percentage of GDP averaged at 15.5 percent during the period 1995 to 2017.

Figure 17: Company Income Tax as Percentage of GDP, 1995 – 2017

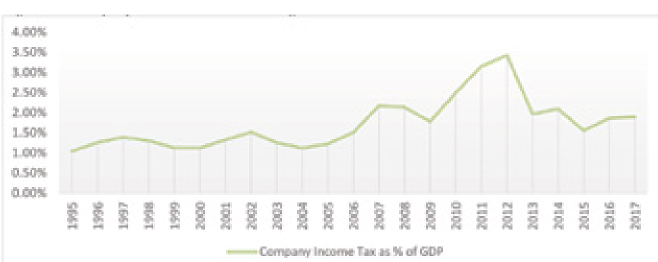


Figure 18: Pay As You Earn as Percentage of GDP, 1995 – 2017

Figure 19: Withholding Tax as Percentage of GDP, 1995 – 2017

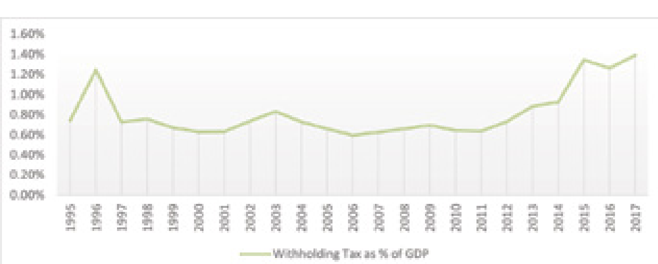


Figure 20: Value Added Tax as Percentage of GDP, 1995 – 2017

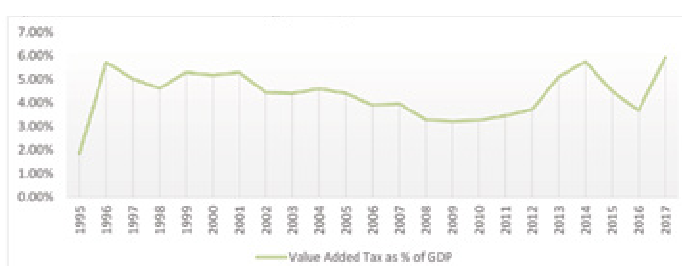


Figure 21: Mineral Royalty as Percentage of GDP, 1995 – 2017

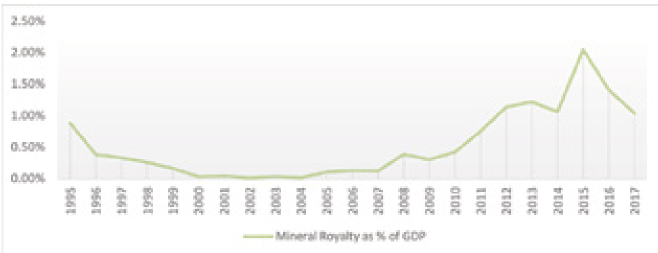


Figure 22: Excise Duties as Percentage of GDP, 1995 – 2017

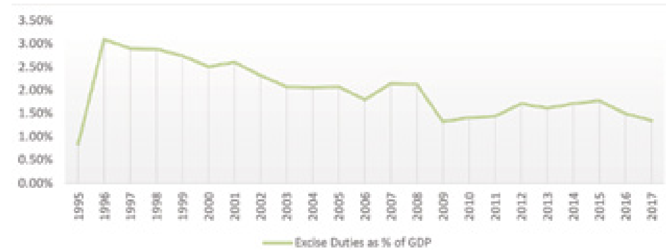


Figure 23: Import Tariffs as Percentage of GDP, 1995 – 2017

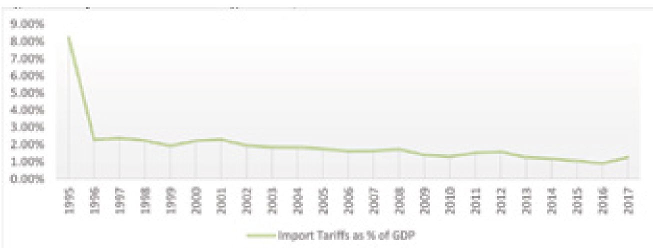
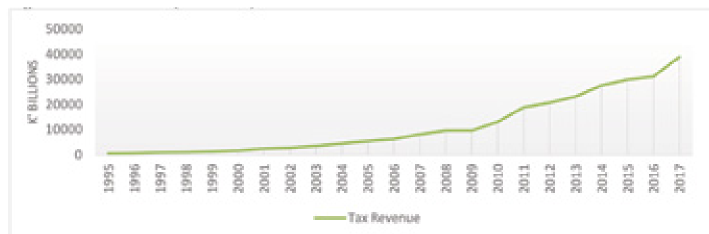


Figure 24: Tax Revenue (K' millions) 1995 – 2017



PERFORMANCE OF OPERATING DIVISIONS AND CORPORATE INITIATIVES

Customs Services Division

ZRA continued to pursue strategies aimed at facilitating trade by improving the management and processing of customs declarations through risk management and profiling.

Customs Declarations

The registration to assessment conversion ratio indicates the volume of declared registrations that reach the assessment stage of the revenue collection process. In the year under review, 99.6 percent of the total transactions were assessed compared to 99.1 percent that were assessed in 2016. See Table 11 below.

Table 11: Registration to Assessment Conversion Ratio for all transactions in 2017 and 2016

Period	Assessed	Registered but not assessed	Total	Percentage Assessed	Percentage registered but not assessed
2017	1,084,402	4,093	1,088,495	99.6%	0.4%
2016	629,422	5,435	634,857	99.1%	0.9%

The marginal improvement in the registration to assessment conversion ratio in the period under review compared to 2016 can be attributed to the establishment of regional Centralised Processing Centres (CPCs).

Customs Refunds

The Authority administers a Duty Drawback Scheme that enables local manufacturers to claim back a proportion of duties paid on inputs used in the manufacture of exported goods. In addition, ZRA also administers other customs refunds arising from claims on import and export transactions. Compared to 2016, the number of general refund claims reduced by 40.2 percent with a corresponding decline in the value of refund claims of 66.0 percent (See Table 12). The 2016 refund levels were higher due to significant claims by some mining companies after the re-exportation of mineral concentrate that was found unsuitable for consumption in Zambia.

Table 12: Number, Value of Duty Drawback Applications and General Refunds in 2017 and 2016

	2017	2016	%Variance
Duty Drawback Refunds:			
Number of duty drawback applications	344	431	(20.2)%
Value of duty drawback applications (K'Mn)	96.26	137.03	(29.8)%
Value of processed duty drawback applications (K'Mn)	88.38	133.30	(33.7)%
Value of duty drawback payments (K'Mn)	68.30	112.80	(39.5)%
General Refunds:			
Number of General refunds claims	431	721	(40.2)%
Value of General refund claims (K'Mn)	19.14	56.34	(66.0)%
Value of processed General refund claims (K'Mn)	19.14	56.34	(66.0)%
Value of General refund payments (K'Mn)	18.94	56.34	(66.4)%

Duty drawback claims in 2017 declined by 20.2 percent to 344 in 2017 from 431 in 2016. The major reason for the reduction is attributed to the additional requirements instituted for claimants to provide proof of exportation. This requirement created a lag in the submission of claims thereby leading to a reduction in claims.

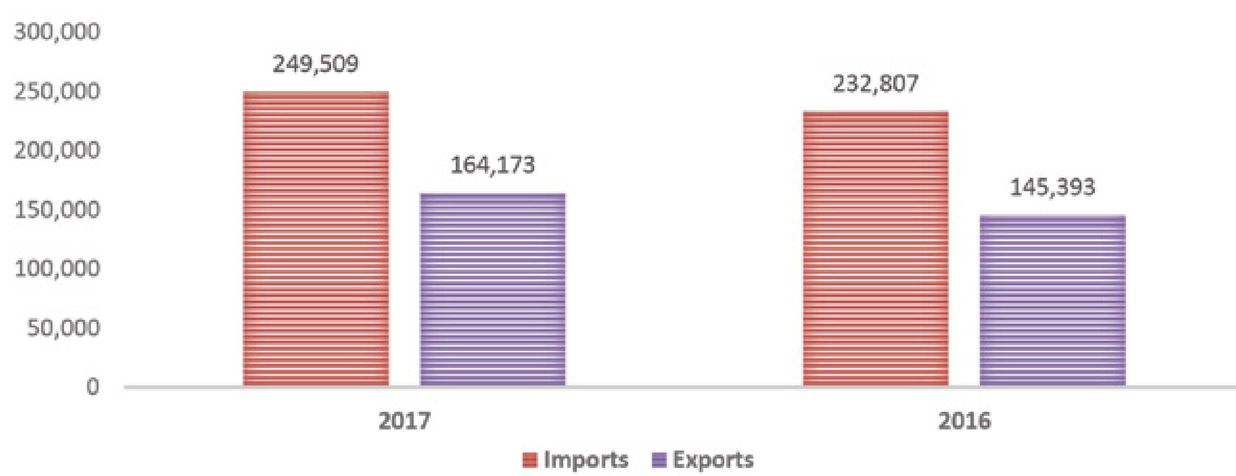
Direct Import and Export Declarations

In 2017, import declarations increased by 7.17 percent to 249,509 from 232,807 in 2016. Similarly, the number of export declarations in 2017 increased to 164,173 from 145,393 in 2016 representing a 12.9 percent increase. The growth in business volume for import transactions can be attributed to the increased mining activity that resulted in increased imports by mining companies owing to the favourable copper prices on the international market (See Table 13).

Table 13: Entries of Permanent Imports and Permanent Exports in 2017 and 2016

	2017	2016	% Variance
Number of Import Entries Lodged	249,509	232,807	7.2%
Value of Import Entries Lodged (K Million)	81,007.40	70,621.22	14.7%
Number of Export Entries Lodged	164,173	145,393	13.0%
Value of Export Entries Lodged (K Million)	112,747.96	106,672.47	5.7%

Figure 25: Number of Entries for Import and Export in 2017 and 2016



Processing Efficiency

Processing efficiency as measured by the actual revenue collected against the potential revenue was recorded at 97.0 percent in 2017 compared to 94.5 percent in 2016. Specifically, the potential revenue in the period under review amounted to K12, 800.6 million of which K12, 417.3 million was collected. A further K329.3 million or 2.6 percent was registered and assessed but not paid, while K53.3 million or 0.4 percent was not assessed and therefore no collections were made (See Table 14 below for the details).

Table 14: Processing Efficiency in Tax Yield from all Taxable Transactions in 2017 and 2016 (K' million)

	2017		2016	
	K' Million	%	K' Million	%
Un-assessed Taxes	53.33	0.4%	43.8	0.4%
Registered, Assessed, Not paid	329.29	2.6%	618.7	5.2%
Registered, Assessed and Paid (Receipted)	12,417.32	97.0%	11271.6	94.5%
Total Collectable Amount	12,800.57	100.0%	11,934.1	100.0%

Connectivity challenges and system problems that occurred in 2017 negatively affected operations at some stations which affected the processing efficiency and ultimately collection of revenue.

As depicted in Table 15, the Value for Duty Purposes (VDPs) for both taxable and non-taxable transactions recorded a growth of 14.0 percent and 0.4 percent respectively in 2017 from the 2016 level. The taxes collected on transactions on which customs duty is not applicable increased marginally by 1.8 percent between 2017 and 2016, whereas that collected on taxable transactions increased by 21.8 percent.

Table 15: VDP and Tax Yield from Taxable and Non-Taxable Transactions in 2017 and 2016 (K' million)

VDP Type	Value for Duty Purposes			Tax Amount (Gross)		
	2017	2016	% Variance	2017	2016	% Variance
Non-Taxable	109,552.4	109,104.3	0.4%	17,955.7	17,620.2	1.8%
Taxable	14,064.5	12,340.5	14.0%	2,655.9	2,077.0	21.8%
Total	**123,616.9**	**121,444.8**	**1.8%**	**20,611.6**	**19,697.2**	**4.4%**

Between 2017 and 2016, the revenue foregone on account of various trade related concessions increased by K8.3 million or 0.2 percent to K4, 981.6 million from K4, 973.2 million (See Table 16).

Table 16: Tax Revenue Foregone from Concessions, 2017 and 2016 (K' million)

	2017	2016	Variance	% Variance
Total Revenue Loss	4,981.6	4,973.2	8.3	0.2%

Risk Profiling Analysis

In 2017, ZRA continued to apply risk management techniques in the processing of imports and exports. This enabled ZRA to select entry declarations for different levels of scrutiny and hence allow for effective and efficient utilisation of resources.

Using this technique, 54.7 percent of the transactions were channelled to the green lane, hence not subjected to any scrutiny, while 8.7 percent were channelled to the blue lane requiring post clearance audits. A further 20.9 percent were channelled to the yellow lane requiring documentary check while the remaining 15.7 percent were subjected to physical inspection under the red lane (refer to Table 17).

Table 17: 2017 Lane Analysis by Business Volume

Lane	Green	Blue	Yellow	Red	Total
Number	595,883	94,472	227,751	170,389	1,088,495
Percentage	54.7%	8.7%	20.9%	15.7%	100.0%

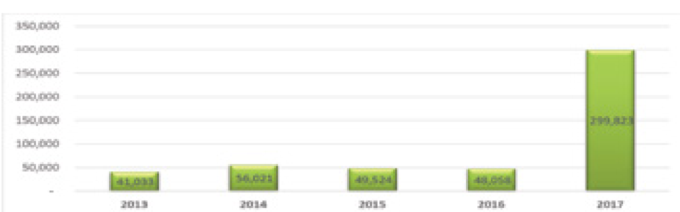
Domestic Taxes Division

Tax compliance is measured by the extent the taxpayers meet their obligations namely; registration, return filing, correct reporting and timely payment of taxes. To be compliant however, taxpayers need information in order for them to understand their obligations. The Authority's performance in respect of this was as follows;

Tax Registration

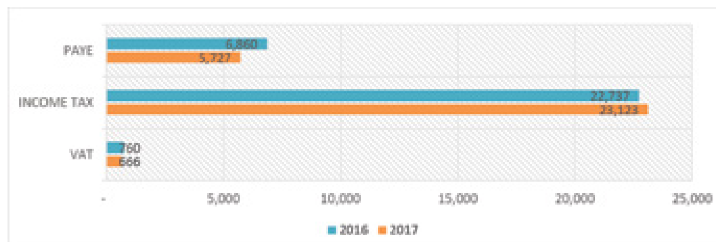
During the year under review, ZRA intensified its effort to register taxpayers especially TPIN registrations following the implementation of the law requiring all bank account holders to have TPINs. In this regard, a total of 269,084 TPINs were issued. In addition 30, 861 registrations were made for different tax types. This was a huge increase in registrations compared to those made in previous years.

Figure 26: Number of TPIN and Tax Type Registrations 2013-2017



Registration by tax types during the year were 23,123 for various income taxes compared to 22,737 registrations in 2016; and 5,727 for PAYE compared to 6,860 registrations in 2016. VAT registrations reduced to 666 from 760 in 2016 (see figure 27).

Figure 27: Registrations by Tax Type in 2017 and 2016



Return Filing

A total of 2,015,004 tax returns were received in 2017 compared to 944,033 in 2016, representing an increase of 113 percent. The increase in return filing was due to the Tax Amnesty on interests and penalties that was implemented in 2017. The largest numbers of returns received in 2017 were for Turnover Tax which increased by 96.9 percent over the 2016 level. With respect to income tax returns, the number of returns filed increased to 1,808,415 in 2017 from 862,459 in 2016 representing a 109.7 percent increase over the 2016 level.

A total of 7,101 PAYE refund applications were received in 2017 representing a 24 percent decrease from the previous year. Similarly, income tax refunds registered a 57 percent decline in the number of applications received in 2017 to 106 from 247 in the previous year. In monetary terms, a total of K71.5 million in direct taxes was refunded comprising K50.9 million in PAYE and K20.6 million as income tax (See Table18).

Table 18: Income Tax Return Statistics

	2017	2016	% Change
A. Number of returns submitted: o/w	**602,483**	**249,858**	**141.1%**
Company tax	45,933	10,191	350.7%
Individuals	16,712	3,044	449.0%
PAYE	421,174	174,540	141.3%
Withholding tax	107,931	55,053	96.0%
Property Transfer Tax	4,798	4,169	15.1%
Mineral Royalty	5,935	2,861	107.4%
Turnover Tax	**1,205,932**	**612,601**	**96.9%**
Company	455,245	246,775	84.5%
Individuals	750,687	365,826	105.2%
C. Number of refund Applications: o/w	7,207	9,467	(23.9)%
PAYE for individuals	7,101	9,220	(23.0)%
Income Tax	106	247	(57.1)%
D. Value of Refunds paid (K' million):o/w	71.47	319.4	(77.6)%
PAYE for individuals	50.91	138.1	(63.1)%
Income Tax	20.55	181.3	(88.7)%

With respect to VAT return submissions, a similar trend was recorded. The number of returns filed increased substantially by 59 percent to 193, 199 in 2017 from 121,705 returns received in 2016. The number of nil returns filed during the year increased by 115 percent to 110, 926 from 51,700 in 2016. Further, the number of repayment returns increased by 21 percent in 2017 while payment returns increased by 17 percent (see Table 19). The number of VAT refund claims applications received in the year increased by 36 percent over the 2016 level to 15, 136. These applications were valued at K8, 917.3 million of which K6, 560.0 million was refunded (See Table 19).

Table 19: VAT Return Statistics

	2017	2016	% Change
A. Number of returns submitted: o/w	**193,199**	**121,705**	**58.7%**
Payment returns	68, 858	58,896	16.9%
Nil returns	110, 926	51,700	114.6%
Repayment (claims) returns	13,415	11,109	20.8%
B. Value of returns submitted (K' million):			
Payment returns	9,357.98	7,698.70	21.6%
Nil returns	0	0	0%
Repayment (claims) returns	8,917.26	6,848.00	30.2%
C. Number of Refund Applications:			
Number of Refund Applications	15,136	11,109	36.2%
Number of Refunds Processed	3,857	3,081	25.2%
D. Value of Refunds Paid (K' million)	6,560.00	7,486.20	(12.4)%

Domestic Tax Audit Performance

Tax revenue yielded from audits in 2017 was K4, 108.5 million of which K2, 303.1 million was principal taxes, and the difference was penalties and interest. The largest contributors to the additional taxes from audits were large taxpayers - mining at K373.2 million and large taxpayer- non mining at K368.9 million. Medium taxpayers contributed K251.8 million while small taxpayers contributed K23.4 million to additional taxes from audits.

In terms of tax type, VAT yielded the largest principal amount of K1, 401.5 million followed by Income Tax with K389.7 million while PAYE stood at K154.4 million. Other tax audits yielded K286.1million. Penalties and interest charges for non- compliance with tax regulations amounted to K1, 393.08 million and K412.23 million for all audits conducted in the year respectively. (See Table 20).

Table 20: Audit Activity in 2017

Type of Audit	Number of Audits	Tax collected (K' Mn)	Penalties (K' Mn)	Interest (K' Mn)	Total (K' Mn)
Large Taxpayer Office: Mining					
Income Tax	86	127.5	33.1	154.7	315.4
PAYE	5	0.7	-	-	0.7
VAT	130	77.7	2.4	78.6	158.7
Integrated	5	16.5	-	-	16.5
Other	205	150.8	-	-	150.8
SUB TOTAL	**431**	**373.2**	**35.5**	**233.4**	**642.0**
Large Taxpayer Office: Non-Mining					
Income Tax	134	170.0	75.1	2.6	247.6
PAYE	120	57.5	26.1	0.5	84.1
VAT	15	42.8	12.6	0.5	55.9
Integrated	41	13.4	2.8	-	16.1
Other	204	85.4	83.8	21.3	190.4
SUB TOTAL	**514**	**368.9**	**200.3**	**25.0**	**594.2**
Medium Taxpayer Office					
Income Tax	588	92.3	18.1	1.0	111.4
PAYE	761	95.1	34.5	1.7	131.3
VAT	5	0.0	0.0	-	0.0
Integrated	44	16.6	2.9	-	19.5
Other	1,390	47.9	0.0	-	47.9
SUB TOTAL	**2,788**	**251.8**	**55.5**	**2.7**	**310.0**
Small Taxpayer Office					
TOT	1,112	21.9	7.9	0.1	29.9
PAYE	44	1.1	0.0	-	1.2
Income tax	478	1.5	0.2	-	1.7
Others	1,127	2.1	1.1	-	3.2
Sub Total	**2,292**	**23.4**	**5.8**	**-**	**29.2**
Indirect Taxes					
VAT	2,309	1,281.0	1,096.0	151.2	2,528.2
Excise Duty	228	4.9	0.0	-	4.9
Sub Total	**2,537**	**1,285.9**	**1,096.0**	**151.2**	**2,533.1**
Grand Total	**8,562**	**2,303.1**	**1,393.1**	**412.2**	**4,108.4**

COMPLIANCE INITIATIVES THAT SUPPORT REVENUE COLLECTION

During the year, ZRA employed multiple strategies to significantly improve and sustain tax compliance. These strategies included enhanced data sharing with external stakeholders, improving enforcement tools, enhanced use of technology and proposing tax policy changes which included the following:

• Restructuring of the turnover tax regime by introducing bands and presumptive amounts;

• Adjusting upwards the Advance Income Tax (AIT) rate to 15 percent from 6 percent;

• Make it mandatory for a person purchasing and changing ownership of a motor vehicle to obtain a Tax Clearance Certificate.

• Introduction of a requirement for all bank account holders to obtain a TPIN

• Implementation of Withholding VAT mechanism

• Data sharing arrangements with ZPPA, FIC and others

To better inform tax and administrative policy, two (2) research projects were commissioned in 2017 namely;

• An evaluation of the excise duty in Zambia; this research that

sought to measure the revenue elasticity and buoyancy of the tax as well as estimate the demand for selected excisable products.
• An Assessment of the strategies to improve Personal Income Tax administration in the informal sector

Debt Management

Domestic Taxes Debt

Domestic taxes debt closed the year at a stock of K31, 144.7 million of which K13, 571.3 million was principal tax, K16, 076.2 million were penalties and K1, 230.2 million was interest. This is compared to a debt stock of K28, 225.6 million recorded at the end of 2016 of which K12, 859.2 million was principal tax, K14, 014.6 million were penalties and K1, 351.7 million was interest. The increase in the total domestic tax debt stock between 2016 and 2017 is attributed to the increase in the penalties. The penalties are expected to significantly reduce once the signed Time To Pay Agreements during the Tax Amnesty programme are fully honoured. In addition, the debt stock is expected to further reduce once the ongoing account reconciliation exercise is concluded with affected taxpayers (See Table 22).

Table 22: Composition of Domestic Tax Debt in 2017 (K' millions)

Year	Principal	Penalties	Interest	Total
2017	13,571.3	16,076.2	1,230.2	31,144.7
2016	12,859.2	14,014.6	1,351.7	28,225.6

The largest share of domestic tax debt was attributed to domestic VAT with a debt stock of K17, 060.4 million or 54.8 percent. This was followed by debt under PAYE which amounted to K5, 934.1 million and then by company tax with a stock of K3, 566.5 million as at the end of 2017. Mineral royalty had a total stock of K2, 015.7 million, while turnover accounted for a stock of K1, 493.00 in 2017 and Withholding tax amounted to K805.3 million. The rest of the tax types each had debt below K800.0 million as at the end of 2017 (See Table 23).

Table 23: Trend in Domestic Debt Accumulation, 2012 - 2017 (K' millions)

Tax Type	2012	2013	2014	2015	2016	2017
Company Tax	3,319.1	5,813.0	3,652.5	3,633.9	4,260.5	3,566.5
Back Duty	-	287.2	-	-	-	-
Self Employed (Turnover Tax)	-	812.8	75.9	496.2	1, 068.1	1,493.0
PAYE	1,605.0	641.4	473.4	2,200.1	5,465.9	5,934.1
Domestic VAT	687.7	901.9	11, 357.2	15,620.3	14,679.1	17,060.4
Mineral Royalty	0.0	40.3	133.8	1,288.7	1,655.2	2,015.7
Withholding tax	-	-	-	1,133.2	787.9	805.3
Domestic Excise	-	-	-	58.4	306.1	193.0
Insurance Levy	-	-	-	-	2.5	74.8
Presumptive Tax	-	-	-	-	-	1.0
Property Transfer Tax	-	-	-	-	-	0.5
Medical Levy Tax	-	-	-	-	-	0.2
Total	**5,611.8**	**8,496.6**	**15,692.8**	**24,430.8**	**28,225.6**	**31,144.7**

Customs Debt

In terms of the customs debt, the total outstanding as at the end of 2017 was K2,428.8 million which was 193.5 percent higher than K827.6 million posted at the end of 2016 (See Table 24).

Table 24: Trend in Customs Debt Accumulation, 2012 - 2017 (K' Millions)

Tax Type	2012	2013	2014	2015	2016	2017
Customs Duty	11.3	15.7	45.4	83.9	200.1	961.0
Advance Income Tax	0.9	1.2	2.1	4.6	24.1	47.7
Import excise duty	21.4	26.9	44.8	97.6	1.7	424.2
Fuel Levy	3.5	7.8	23	23	205.4	34.0
Export Duty	0	0	0.2	1.3	46.2	0.4
Motor Vehicle Fee	0.2	0.8	1.4	1.9	247.1	73.5
Carbon Emission Surtax	0.1	0.3	0.5	0.5	1.6	27.8
Import VAT	18.7	32.8	93.7	244.5	435.4	828.3
Total Debt	**56.1**	**85.5**	**211.1**	**457.2**	**827.6**	**2,428.8**

Total Debt Stock

In 2017, the total debt stock closed at K33, 573.5 million of which domestic taxes debt was explaining K31, 144.7 million or 92.8 percent. The remainder of K2, 428.8 million or 7.2 percent of the total debt stock was related to customs and excise. As a result of the increase in both domestic taxes and customs and excise debt, the total debt stock rose by 15.4 percent from the 2016 closing stock
(See Table 21).

Table 21: Total Debt Stock, 2012-2017

	2012	2013	2014	2015	2016	2017
Total Debt, K' Million: o/w	**5,667.9**	**8,582.1**	**15,903.9**	**24,888.0**	**29,053.2**	**33,573.5**
Domestic Taxes Debt	5,611.8	8,496.6	15, 692.8	24,430.8	28,225.6	31,144.7
Customs Debt	56.1	85.5	211.1	457.2	827.6	2428.8
Domestic Taxes Debt (% of Total)	***99.0%***	***99.0%***	***98.7%***	***98.2%***	***97.2%***	***92.8%***
Customs Debt (% of Total)	***1.0%***	***1.0%***	***1.3%***	***1.8%***	***2.8%***	***7.2%***

TAXPAYER EDUCATION AND ADVISORY SERVICES

ZRA has in place a Taxpayer Education Strategy which outlines the various modes through which the Authority interacts with taxpayers as it tries to disseminate tax information. During the year under review, the Authority continued to engage different stakeholders on tax matters. The key stakeholders engaged during the year were the Bankers Association of Zambia, Zambia Conference of Catholic Bishops, Zambia Chamber of Commerce and Industries (ZACCI). The Authority also had post budget engagements with Ernst and Young, PricewaterhouseCoopers (PWC), Zambia Institute of Chartered Accountants (ZICA), KPMG, BDO Tax Advisory and Deloitte and Touche, among others.

Workshops

A total of 175 workshops were conducted and these included workshops for Zambia Sugar out growers, Private Schools Association, Zambia Conference of Catholic Bishops; Zambia Congress Of Trade Unions.

The Authority also partnered with the Zambia Institute of Chartered Accountants (ZICA) and Association of Chartered Certified Accountants (ACCA) in conducting business workshops for micro, small and medium enterprises in Lusaka.

Open Days

A total of 10 Open day sessions were held at various shopping malls and Central business places of Lusaka, Kitwe and Ndola to educate taxpayers on e-facilities with more emphasis on electronic TPIN registration, electronic tax payments, Tax Amnesty and other aspects of tax administration. The sessions were held at Manda Hill Shopping Mall, Levy Junction Mall, East Park Shopping Mall and Cosmopolitan Mall in Lusaka; Mukuba Mall in Kitwe and Watch it Grow Mall in Ndola.

Tax Clinics and Roadshows

In an effort to reach out to the communities, tax clinics and roadshows were held on e-services offered through TaxOnline and ASYCUDAWorld to enable taxpayers become more conversant with the Systems. Road shows were conducted in Lusaka, Chinsali, Kasama, Lundazi, Petauke, Chipata, Siavonga and Monze. In addition, the Authority conducted tax lectures at various learning institutions as a way of promoting the TPIN registration for bank account holders and cultivating a culture of paying tax among the general populace. A total of 106 tax clinics were held.

Television and Radio Programs

A total of 245 Television and radio programs were produced and broadcast to various audiences. The topics covered the various taxes administered by the Authority, the Tax Amnesty, e-services, and TPIN registrations amongst others.

Agriculture and Trade Shows

The Authority participated in three national and nine provincial Trade and Agricultural Shows. During these shows, various taxpayer services were offered including on-site taxpayer registrations. In disseminating tax information, literature on various tax types administered by the Authority was distributed.

Taxpayer Training

As part of the change management program, a total of 361 taxpayer training sessions were conducted during the year. The objectives of the training were; to increase taxpayer awareness on the e-services and initiatives being implemented by ZRA, as well as to demonstrate to taxpayers how to signup, login and use the systems.

The trainings on e-services conducted were mainly on E-Payments; E-TPIN Registration, Customs Self-Assessment and Customs Electronic Licensing, and were open to the members of the general public. The Authority also held sessions for specific interest groups and associations.

Taxpayer Visits

A total of 356 visits were made to various taxpayers across the country. Some of the issues discussed during the visits included the implementation of the withholding VAT mechanism and the TPIN registration requirement for bank account holders among others.

Tax Literature

A number of tax literature were printed in hard copy for hand out to taxpayers at trade shows, workshops, road shows, tax clinic, front offices and other strategic places and engagements with taxpayers. These included Practice Notes, Withholding VAT guidelines, VAT Liability Guide, VAT Guide, Frequently Asked Questions, New Residents Rebate, and many others.

Table 25 shows the number of engagements with taxpayers in 2017 in comparison with 2016.

Table 25: Number of Taxpayer Outreach Programmes in 2017

Type of Programme	2017	2016	% Change
Workshops/ Seminars	175	150	16.7%
Open Days	10	4	150.0%
Tax Clinics	106	77	37.7%
Radios/ TV programmes	245	80	206.3%
Agriculture and Trade Shows	12	12	0.0%
Taxpayer Training	361	236	53.0%
Door to door/ Taxpayer Visits	356	121	194.2%
Lectures	25	64	(60.9)%
Total	**1290**	**744**	**73.39%**

To ease taxpayer access to information, the Authority continued to use its Website. The website enabled taxpayers to access e-services and also to download tax information and other tax related documents. The Facebook page proved to be a popular tool for taxpayer education engagements, with the number of followers rising to 26,540 in 2017 from 20,000 in 2016.

In 2017, a total of 568,927 contacts were made by taxpayers with ZRA through the Taxpayer Service Centres and the Advice Centre compared to a total of 284,159 in 2016. The increase was attributed to enquiries related to the Tax Amnesty and the TPIN registrations for bank account holders. In 2017 a total of 26,515 e-mails sent to the advice e-mail address were responded to as compared to 5,123 in 2016.

The National Call Centre received a total of 46, 492 phone calls in 2017 compared to 31,893 in 2016, representing an increase of 45.8 percent. The most frequent topics of inquiry included the Tax Amnesty, TPIN requirement for bank account holders and Withholding tax on rent among others.

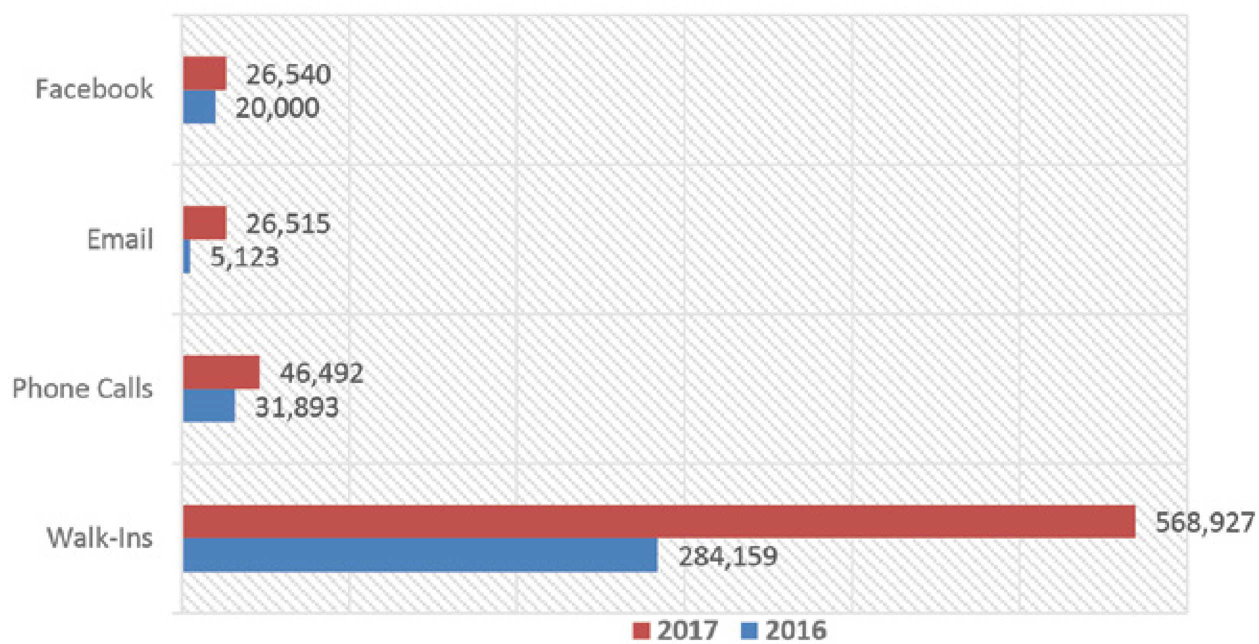
Non-Compliance and Prosecutions

The Authority enhanced its compliance initiative through monitoring of transactions and activities of taxpayers. Where non-compliance was established, thorough investigations were conducted leading to prosecution in some cases.

Investigations

During the year, 2017, the Investigations Units handled a total of 425 cases out of which 83 were brought forward from 2016, while 342 new cases were generated. A total of 94 cases were concluded during the year and 331 were carried forward to 2018.

Figure 28: Taxpayer Contact in 2017 and 2016



ANNUAL REPORT | 2017

MANAGING PUBLIC CONFIDENCE

MANAGING PUBLIC CONFIDENCE

Professional Excellence and Staff Integrity

In an effort to heighten the fight against corruption, the ZRA Integrity Committee during the year conducted awareness workshops in 23 stations for staff and other stakeholders.

The Taxpayer Charter, which sets out ZRA service delivery standards, also provides our taxpayers a platform for demanding or expecting professionalism from our employees. The Charter is a public document and thus can be used to hold the Authority accountable.

Minimising Compliance Costs

Compliance costs are important matters for taxpayers and the Authority, hence ZRA undertakes measures to minimise compliance costs incurred by taxpayers in meeting their obligations. To this extent, the Authority focused on the initiation of mobile phone based compliance platform under ZAMeT project, which will be rolled out later in 2018. ZAMet will allow taxpayers to transact with ZRA using a mobile phone, without requiring internet connectivity.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The Governing Board oversees ZRA's overall organisation and administration. Relevant systems, processes and procedures are in place to ensure implementation of good corporate practices.

Performance of the Corporate Strategic Plan

The performance of the CSP in terms of the four Balanced Score Card (BSC) dimensions is highlighted below.

• BSC Financial Results – SO 1: To optimise revenue collection
The Authority planned to meet this objective by focusing on meeting the annual revenue target for the review period through continuous refinement of measures aimed at increasing compliance, enhancing enforcement and managing the cost of collection. The Authority exceeded the revenue target for the year 2017 by K1, 527.2 million (4.1%).

The Authority attained 54 percent of all the KPIs under this strategic objective while 12% were still work in progress and 35 percent were not achieved. Among the KPIs that were met included reducing the average time to complete investigation cases, increasing the percentage of prosecution cases in favour of ZRA, and civil case outcomes in favour of ZRA.

• BSC Business Processes - SO2: To improve operational efficiency through development of infrastructure, systems and processes

The Authority managed to meet 42 percent of the KPIs under this strategic objective. 45 percent of the KPIs were partially met and 12 percent were not met. Among the KPIs fully met included stabilising TaxOnline and ASYCUDAWorld, which registered average system availability of 99 percent.

• BSC Employee Satisfaction SO3: To enhance the professionalism and productivity of the human capital

The Authority achieved 56 percent of the KPIs under this strategic objective while 33 percent were partially achieved and 11 percent of the KPIs were not met.

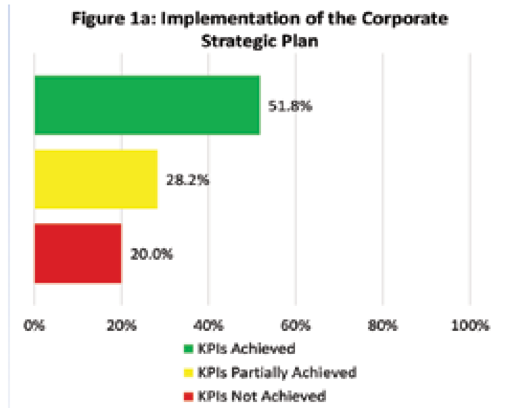
The Staff Performance Management and Development System (PMDS), was well implemented resulting in 99 percent of staff meeting or exceeding their performance expectation in 2017.

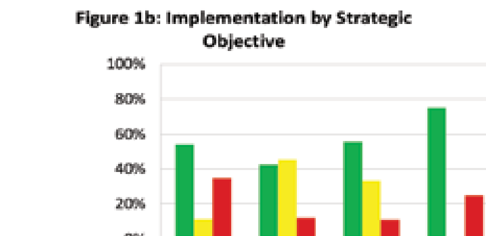
• BSC Customer Satisfaction – SO4: To provide accurate, courteous, timely and professional services to internal and external customers

The Authority managed to achieve 75 percent of the KPIs under this objective while 25 percent of the KPIs were not achieved. The key initiatives implemented included conducting taxpayer education and outreach programmes, providing customer care training to front office staff and improving the dispute resolution process.

• Overall Implementation of Corporate Strategic Plan
In terms of overall performance, the Corporate Strategic Plan was 51.8 percent fully implemented, 28.2 percent partially implemented and 20 percent not met for the year. It is worth noting that the failure to achieve some of the set targets was mainly due to limited resources allocated to some areas of operation arising from realignment of priorities during the year under review.

Figure 29: Overall Implementation of Corporate KPIs





	SO1	SO2	SO3	SO4
KPIs Achieved	54%	42%	56%	75%
KPIs Partially Achieved	12%	45%	33%	0%
KPIs Not Achieved	35%	12%	11%	25%

Divisional and Departmental Functions

The primary structure of the Authority consists of four Divisions and six Departments, all of which have direct reporting lines to the Commissioner General. Divisions are headed by Commissioners and Departments by Directors. Below is a summary of the functions of the Divisions and Departments.

Customs Services Division

The Customs Services Division is responsible for administering the customs duties, import excise and other duties as mandated by the Customs and Excise Act, Chapter 322 of the Laws of Zambia. Other core functions include: licensing and controlling warehouses and premises for the manufacture of certain goods; and prohibition of imports and exports in line with the Control of Goods Act - Chapter 421 of the Laws of Zambia; and implementation of customs and trade agreements.

Domestic Taxes Division

The Domestic Taxes Division administers all inland taxes as provided for through a number of Acts which include: the Income Tax Act, Chapter 323 of the Laws of Zambia; the Value Added Tax Act, Chapter 331 of the Laws of Zambia; and 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 authorised under the Mines and Minerals Development Act, No. 11 of 2015; the division further 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.

Finance Division

The Finance Division is in charge of the accounting, treasury and debt management functions of ZRA. The accounting function deals with the management of operational funds, while the Treasury function involves the receipting and accounting for Government revenue.

Modernisation and Corporate Strategy Division

The Modernisation and Corporate Strategy Division is responsible for driving the reform agenda of the Authority in as far as systems development and critical information management is concerned. The division comprises three departments: the Information and Technology Department; Projects Management Department; and the Corporate Strategy Department, which deals with strategic management, risk management and continuous business process improvement.

Human Resource Department

The Human Resource Department is responsible for all aspects of human resource management in ZRA, with the objective of maximising the value and productivity of staff. The Department also coordinates implementation of staff development, compensation, staff welfare, and payroll management, amongst other things.

Research and Policy Department

The department is responsible for research, statistical analysis, data management and tax policy coordination between ZRA and the Ministry of Finance. The department's mandate was further extended to include coordination of bulk data analysis capability at corporate level. The department also provides executive support functions to the Office of the Commissioner General

Internal Audit Department

The Internal Audit Department provides assurance to management and the Audit Committee of the Governing Board on the effectiveness and reliability of internal controls, risk management and governance processes within the Authority. In addition, the Department is responsible for continuous evaluation of efficiency, effectiveness and prudent use of resources in the Authority's business operations, projects and programmes as well as ensuring that its assets are safeguarded.

The Department also tracks implementation of audit report recommendations including those from external audit functions such as the Office of the Auditor General.

Investigations Department

The Investigations Department investigates reports and allegations of tax offences under the various tax and related Acts with a view to prosecution as a way of enhancing tax compliance. These include the Customs and Excise Act Chapter 322, the Income Tax Act Chapter 323, the Value Added Tax Act Chapter 331 of the Laws of Zambia and all other Acts administered by the Commissioner General. The Department also conducts anti-smuggling operations across the country.

Administration Department

The Administration Department carries out support functions that include fleet management and security, development and maintenance of infrastructure, procurement, and stores management.

Legal Services Department

The Legal Department represents the Authority in all legal related matters. The department also provides legal advice required on all official matters to the Commissioner General and all officers.

INTERNAL AND EXTERNAL SCRUTINY

INTERNAL SCRUTINY

Internal Audit

In 2017, the Internal Audit Department planned to undertake 31 process audits and 10 special reviews, out of which nine (9) process audits and eight (8) special reviews were finalised, whilst three (3) were deferred to 2018. A total of 11 audits were at various stages of audit completion. The Department also finalised 13 audits carried forward from 2016. The total number of reports tabled before the Audit Committee in 2017 was 21. (See Table 26)

Table 26: Audits and Investigations Undertaken in 2017 and 2016

Audits and Investigations	2017	2016
Number of planned audits	31	**31**
Number of process audits finalised	9	**6**
Number of special reviews and investigations undertaken	10	**2**
Number of special reviews and investigations finalised	8	**0**
Number of 2016 audits finalised in 2017	13	**23**

Internal Affairs

The Internal Affairs Unit recorded a total of 38 cases of fraud and misconduct in 2017 compared to 68 in 2016. Generally, there has been a downward trend in the number of cases reported over the years, for example, in 2015, 80 cases were reported compared to 68 cases in 2016. This may be attributed to the intensive integrity awareness campaigns being undertaken by the Authority which may have reduced the number of employees involved in malpractices (See Table 27).

During the period under review, the unit recommended 14 cases for disciplinary action out of which a total of 11 employees were dismissed. Some of the cases (6) were referred to the Investigations Department with a recommendation to collect taxes which were due. A further five (5) cases were referred to the Customs Services Division for further action.

Table 27 Cases of Fraud and Misconduct by Employees

Type of offence	2017	2016	% Change
Fraud	3	9	(66.7)%
Breach of Code of Conduct	19	27	(29.6)%
Theft	2	2	0.0%
Bribery	3	12	(75.0)%
Abetting smuggling	6	11	(45.5)%
Other	5	7	(28.6)%
Total cases investigated	**38**	**68**	**(44.1)%**

Staff Integrity

The ZRA Integrity Committee (ZRAIC) which is responsible for upholding staff integrity continued to receive client feedback through its Secretariat. The Secretariat received feedback using various channels of communication such as letters, email, telephone and through suggestion boxes which are mounted in all stations. The number of comments and complaints received in 2017 decreased to 37 from 55 received in 2016, representing a 32 percent reduction.

All the 28 complaints received in 2017, related to alleged inefficiency in the processing of TPINs (See Table 28).

Table 28: Number of Complaints and Comments Received by ZRAIC

Year	Complaints	Comments	Total
2017	28	9	37
2016	23	32	55

The number of comments received during the year decreased from 32 to 9 comments indicating a reduction of 71.9 percent over that received in 2016 (See Table 29).

Table 29: Nature of Comments Received

Taxpayer Feedback	2017	2016
Compliments	0	9
Information	2	7
Queries	7	13
Suggestions	0	3
Total	**9**	**32**

EXTERNAL SCRUTINY

Parliamentary Committees

Parliament provides an oversight function over the operations of the Zambia Revenue Authority as it is a public body. This is done through the various Committees of the House. During the year under review the Authority made written responses to various Parliamentary queries and

also appeared before different Committees of the House. These included the Committee on National Economy, Trade and Labour Matters; the Budget Committee; the Public Accounts Committee; the Expanded Committee on Estimates; and the Committee on Communications, Transport, Works and Supply.

Auditor General

The Authority is a strategic national institution whose operations are financed from public funds. The Office of the Auditor General therefore provides an oversight function on the operations of the Authority through annual audits and reviews to ensure that public funds are spent on budgeted activities and also to ensure that all monies collected through taxes are properly accounted for. In this regard, the Authority was, in 2017, subjected to two (2) audits by the Auditor General: one report covering the Financial and Operational activities and the other covering Revenue Collection activities.

Notably, there were no audit queries raised in the Financial and Operational activities report. However, a total of thirteen control weaknesses were highlighted in the Revenue Collection report. At the close of the year, management was in the process of addressing and implementing solutions to these findings.

Litigation

Litigation remains an integral part of our compliance and dispute resolution mechanism. Dispute resolution through litigation provides clarity in the law and provides a platform for taxpayers to be heard in a fair and transparent manner. In 2017, the Authority was involved in both civil and criminal litigation in the Supreme Court, the High Court, the Magistrates Court, the Industrial Relations Court and Tax Appeals Tribunal.

Civil Litigation

The number of civil cases litigated by ZRA in 2017 was 57 compared to 96 cases that were litigated in 2016 representing a 41.0 percent reduction in cases litigated. Out of the 57 cases litigated in 2017, 10 were Supreme Court cases, 16 were High Court cases, 24 were Tax Appeals Tribunal cases, and seven (7) were Industrial Relations Court cases (See Table 30). The majority of these cases were under the Domestic Taxes Division followed by Customs Services Division and Human Resource related cases.

Table 30: Tax Related Litigation in 2017 and 2016

Type of Court	2017	2016	% Change
Magistrates Court	0	3	(100.0)%
High Court	16	31	(48.4)%
Supreme Court	10	19	(47.4)%
Tax Appeals Tribunal	24	28	(14.3)%
Industrial relations court	7	15	(53.3)%
Total Cases	**57**	**96**	**(41.6)%**

From the 57 cases that were litigated in 2017, 50 cases or 87.7 percent were on direct taxes, indirect taxes, customs and excise. The labour-related cases were seven (7) cases or 12.3 percent. The total number of cases concluded during the year was 19 out of which 15 cases were concluded in favour of ZRA while four (4) cases were concluded in favour of taxpayers. As at the end of the year a total of 38 cases were active in the various courts and at the Tax Appeals Tribunal.

Criminal Litigation

ZRA prosecuted a total of 17 cases in 2017, out of which four (4) convictions were secured. Further, judgment in one concluded case was being awaited. As at end of the year, 11 cases were still undergoing litigation.

It is worth noting that the total number of cases handled in 2017 declined by 29 or 170.6 percent when compared to 2016 as the Authority exercised the discretion of imposing fines as opposed to criminal prosecution.

All cases handled in 2017 were customs related and involved transit fraud or forgery of import documents. Further, in three (03) of the cases in which convictions were recorded, the courts ordered forfeiture of subject goods which were later disposed-off by way of destruction and payment of duties and taxes.

Table 31: Prosecuted cases by Tax Type and Values in 2017 and 2016

Cases closed by type	Customs & Excise		Domestic Taxes		Total, 2017		Total, 2016	
	Number	Value (K)	Number	Value (K)	Number	Value (K)	Number	Value (K)
Withdrawn	0	0	0	0	0	0	7	131,700
Conviction & Fine	4	414,122	0	0	4	414,122	26	106,300
Acquittal	0	0	0	0	0	0	2	120,000
Awaiting Judgement	1	715,382	0	0	1	715,382	3	345,000
Pending arrest	1	65,641	0	0	1	65,641	0	0
Trial Stage	11	5,495,701	0	0	11	5,495,710	7	301,210
Total Prosecutions	**17**	**6,690,846**	**0**	**0**	**17**	**6,690,846**	**46**	**1,004,210**

Seizure of Goods

In the course of investigations, the Authority seized several goods that were the subject of various offences. Some goods were forfeited to the State and auctioned or donated to needy institutions in accordance with the laid down requirements under the law to recover taxes.

MANAGING PEOPLE

MANAGING PEOPLE

Staff Strategy

The Authority's staff strategy in the year under review focused on promoting an effective and efficient workforce that would be responsive to ZRA's mandate of collecting more revenue both in the short and long-term.

The following highlight the Authority's activities in this area:
• Induction of 130 new employees in order to introduce them to the ZRA work culture.
• A skills gap audit was conducted to identify the difference between the skills needed to achieve maximum productivity and the skills members of staff possess.
• Development of Productivity Standards for all Divisions and Departments in ZRA.
• The revised Performance Management and Development Policy was put in place as part of on-going efforts to enhance performance and productivity.
• In an effort to further ensure staff continuity and middle management capacity building, 10 Management Trainees were employed under the Information and Communications Technology Department.
• The Promotion Policy was developed and implemented to ensure that internal candidates in possession of appropriate qualifications and experience are considered for higher positions before considering external candidates.
• The Resourcing and Selection Policy and Procedure Manual, was reviewed to remove some ambiguities which were hindering the closing of some vacancies within time.
• A total of 33 members of staff in middle and lower management levels were trained in Supervisory Management Development program.

Staff Complement

As at 31st December 2017, the Authority's staff complement stood at 1,688 employees compared to 1,557 in 2016, representing a 7.8 percent increase. The increase in the staff complement was necessitated by the operational and structural changes in the Authority. Despite this increase, the staff complement in 2017 was below the approved establishment of 1,745. The staff complement in 2017 stood at 96.7 percent of the approved establishment, an improvement from 89.5 percent in 2016.

Table 32: ZRA Staff Complement by Division/Department/Unit as at end 2017 and 2016

Division / Unit	2017		2016	
	Actual	**Approved**	**Actual**	**Approved**
Commissioner General's Office	40	44	22	30
Domestic Taxes	482	508	451	511
Customs Services	565	584	541	589
Administration Department	258	259	246	258
Legal Department	9	10	8	10
Research and Policy	12	12	26	27
Human Resource	33	37	37	35
Finance	119	121	100	118
Corporate Strategy*	8	7	-	-
Information Technology*	70	71	58	70
Project Management*	6	6	6	6
Internal Audit	19	19	18	19
Investigations	67	67	44	66
Total	**1,688**	**1,745**	**1,557**	**1,739**

*Formed one division called Modernisation and Corporate Strategy Division

In 2017, the proportion of female staff marginally increased to 33.9 percent compared to 32.8 percent in 2016. Non-Represented Contract Staff accounted for 12.1 percent of the workforce compared to 12.2 percent in the previous year. In 2017, 41.5 percent of the staff were in the Represented Contract Staff category compared to 39.8 percent in 2016. A further 46.4 percent of the staff were in the Represented Non-Contract Staff category compared to 48.0 percent in 2016 (See Table 33)

Table 33: ZRA Staff Complement by Category and Gender

Staff Category	2017				2016			
	Male	Female	Total	% of Total	Male	Female	Total	% of Total
Non Represented Contract Staff (ZRA00 – ZRA04)	162	42	**204**	**12.1%**	149	40	**189**	**12.2%**
Represented Contract Staff (ZRA05 – ZRA06)	441	260	**701**	**41.5%**	402	219	**621**	**39.8%**
Represented Non-Contract Staff (ZRA07 – ZRA10)	512	271	**783**	**46.4%**	496	251	**747**	**48.0%**
Total	**1115**	**573**	**1688**	**100.0%**	**1,047**	**510**	**1557**	**100.0%**

As depicted in Table 34, a total of 1,114 or 66.0 percent of the staff complement was in the operating divisions/departments a marginal reduction from 1,036 or 66.5 percent in 2016.

Table 34: ZRA Staff Classification as Operations and Support in 2017 and 2016

DIVISION/DEPARTMENT	2017	2016	% Change
OPERATIONS:			
Domestic Taxes	482	451	6.9%
Customs Services	565	541	4.4%
Investigations	67	44	52.3%
Sub Total	**1,114**	**1,036**	**7.5%**
SUPPORT SERVICES:			
Commissioner General's Office	40	23	73.9%
Research & Policy	12	26	(53.8)%
Administration Department	258	253	2.0%
Legal Department	9	8	12.5%
Human Resource	33	37	(10.8)%
Finance	119	100	19.0%
Internal Audit	19	18	5.6%
Corporate Strategy	8	-	100%
Information Technology	70	58	20.7%
Projects	6	6	0.0%
Sub Total	**574**	**498**	**15.3%**
GRAND TOTAL	**1688**	**1,557**	**8.4%**

Resourcing and Selection

A total of 339 employees were recruited in 2017, out of which 123 were through internal recruitment and the remaining 216 were through the external recruitment process.

Staff Development and Training

The complexity of the Authority's work requires constant training and retraining of staff. In this regard, ZRA committed significant resources to capacity building amounting to K7.1 million in 2017. This resulted in the successful implementation of training programmes attended by 1,809 participants in 2017.

The number of participants in 2017 was lower than the 2,470 recorded in 2016, largely due to the late approval of the 2017 training budget which affected the successful implementation of the training activities that were planned for the year. From the training programs planned for the year, 88 percent were implemented and the training budget utilisation rate was 84 percent.

Performance Management and Development Process

The 2017 training budget was prepared and implemented based on the recommendations from Performance Management and Development Process (PMDP) which acts as one of the tools for identifying staff training needs.

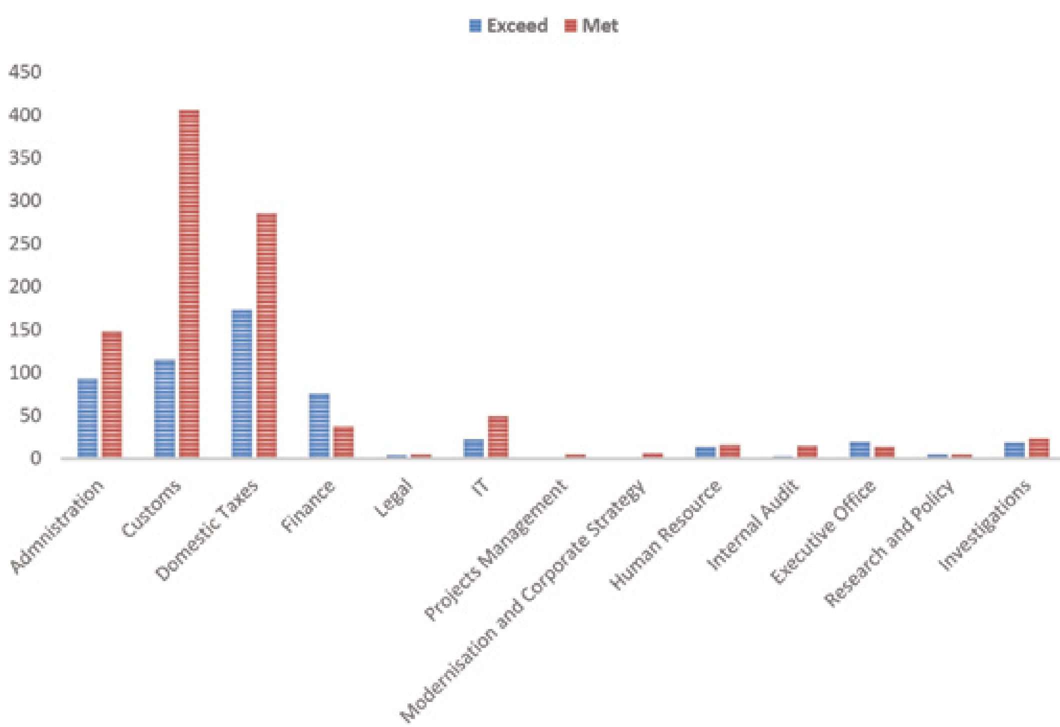
Following the annual performance reviews of the Performance Management Development Contracts (PMDCs) between members of staff and their supervisors, performance ratings as depicted in Table 35 were obtained.

Table 35: Performance Management Development Contract Performance in 2017

DVISION	Expected Eligible	Received	Balance	Percentage Received	Exceed	Met	Not Rated
Administration	244	241	3	98.8%	93	148	
Customs	539	534	5	99.1%	115	406	13
Domestic Taxes	463	463	0	100.0%	173	286	3
Finance	113	113	0	100.0%	76	37	
Legal	9	9	0	100.0%	4	5	
IT	71	71	0	100.0%	22	49	
Projects Management	6	5	1	83.3%	0	5	
Modernization &Corporate Strategy	8	8	0	100.0%	1	6	1
Human Resource	32	30	2	93.8%	14	16	
Internal Audit	18	18	0	100.0%	3	15	
Executive Office	36	34	2	94.4%	20	14	
Research and Policy	10	10	0	100.0%	5	5	
Investigations	42	42	0	100.0%	19	23	
TOTALS	**1591**	**1578**	**13**	**99.2%**	**545**	**1015**	**17**

In 2017, the majority of the employees were in the range of "Met" category representing 64.3 percent of the rated employees in the Authority.

Figure 30: Year-end Performance ratings



Separations

The number of employees that separated from ZRA increased to 91 in 2017 from 68 separations in 2016. The separations were on account of dismissals, resignations, early retirement, expiry of fixed term contracts, medical discharge and death (See Table 36).

Table 36: Separations Recorded in 2017 and 2016

	Dismissal	Termination of Contract/Employment	Contract Expiry	Resignation	Early Retirement	Medical Discharge	Death	Total
2017	12	2	27	11	27	5	7	91
2016	25	2	5	22	7	-	7	68

Staff Welfare and Employee Relations

HIV and AIDS

ZRA has in place an HIV and AIDS Workplace Policy which guides its strategies in the fight against the pandemic. As at the close of the year, ZRA was in the process of revising the HIV/AIDS policy and transform it into a policy that will also encompass chronic diseases such as diabetes and cancer, among others, to be called the Employee Wellness Policy. The Employee Wellness Policy will also extend to cover dependents of the employees.

In 2017, the ZRA Voluntary Support Scheme (VSS) which helps affected employees to access Anti-Retroviral Therapy (ART) had a membership of 613, out of a total workforce of 1,689 employees, representing 36.3 percent of the total workforce. As at the end of the year, 85 employees were accessing the ART under VSS, representing 5.0 percent of the total work force.

Employee Relations

During the year, the management-employee relations remained stable and conducive for business leading to the signing of the Collective Agreement for 2017 - 2018 in January 2017. Further, Management and the Union also held a special Joint Negotiating Council meeting which saw the inclusion of Chinsali and Mongu to the list of stations classified as hardship areas.

It is worth noting that the Collective Agreement for 2017 - 2018 which was signed in January 2017 did not include negotiations for salaries and housing allowances for the year 2018, as such, the negotiations for these commenced towards the end of 2017.

INFORMATION TECHNOLOGY AND PHYSICAL ASSET MANAGEMENT

Asset Management

As part of ZRA's on-going infrastructure upgrade and maintenance programmes, construction works were undertaken at several office and residential properties around the country. The major works that were commenced or concluded in the year under review are highlighted in Table 37.

Table 37: Major Construction Projects in 2017

	Project Name	Contract Value (K)	Status/Comment
1	Refurbishment and remodeling of 7th Floor Revenue House	1,696,310.3	Works completed.
2	Construction of Auditorium At Training Centre in Chelstone	9,158,975.4	Works completed.
3	Construction of New Border Facility at Chanida	14, 390,140.3	Works completed.
4	Replacement of roof at Kenneth Kaunda International Airport Flats	357,743.2	Works completed.
5	Structural rehabilitation works at Chirundu Border	933,287.0	Works completed.
6	Construction of guard house and new sewer system at Katima Mulilo Border	449,669.0	50% complete.
	Total	**26,986,125.1**	

The infrastructure development and rehabilitation works undertaken in 2017 were meant to make ZRA more efficient and responsive to the changing business environment.

Information and Communication Technology

A number of IT Infrastructure activities were carried out during the year. The local area network (LAN) was upgraded at Head Office, Kitwe, Mansa, Solwezi, Livingstone and Victoria Falls stations. LAN and fibre links were installed at the ZRA offices situated at Mulungushi House and Lusaka Civic Centre. In addition, LAN and connectivity were installed at Geological Survey Department and Central Statistics Office to support the Mineral Value Chain Monitoring Project.

A new data centre was finalised at Head Office and all servers were housed there. This data centre will also house the servers for the Electronic Fiscal Devices which will be rolled out in 2018. Further, in order to move towards a more stable backup system the Business Continuity Systems were migrated to the Zambia National Data Centre.

The VSAT system for the two hubs at Head Office and the data recovery site were upgraded under a World Bank sponsored project. This resulted in efficient management of the bandwidth resulting in improved processing speeds for all applications used in the Authority. Similarly, the digital radio system for the Investigation Department was expanded to cover the whole country. This improved operations of the Investigations Department.

During the year, a number of third-party connectivity were implemented in order to ensure business continuity during downtime. This improved availability of connectivity between ZRA and the commercial banks thereby facilitating e-payments which is a major tax payment platform.

MANAGING RESOURCES

MANAGING RESOURCES

In 2017, ZRA operated with an income of K1, 061.7 million out of which K820.1 million was funding appropriated by the Government. Income from ASYCUDA fees was K218.9 million in 2017 compared to K179.5 million received in 2016. Other income amounted to K5.6 million. Table 37 provides a comparative summary of our operating income and expenditure for 2017 and 2016

Table 37: Summary of Income and Expenditure, 2017 and 2016

	2017 (K)	2016 (K) Restated
Income:		
Government Funding –Received	768,664,000	427,354,807
Supplementary Funding	51,472,413	14,466,031
Investment Climate Facility	-	291,616
Norwegian Tax Administration	2,487,526	2,292,280
Mineral Value Chain	6,923,988	2,633,264
ASYCUDA Income	218,850,287	179,489,151
Other Income	5,603,011	6,930,623
Amortisation of Capital grant	3,126,077	2,285,851
Kasumbalesa Agency Fees	4,601,505	-
Commission on Kariba dam toll fees	9,568	3,865
Total Income	**1,061,738,375**	**635,747,488**
Recurrent expenses:		
Staff related expenses	(740,830,631)	(543,667,980)
Administrative expenses	(63,316,900)	(48,596,784)
Operations expenses	(97,969,903))	(71,538,389)
Legal and professional fees	(1,827,306)	(2,205,121)
Depreciation and amortisation	(62,839,075)	(59,872,338)
Results from operating activities	**94,954,560**	**(90,133,124)**
Finance income	7,115,771	7,944,246
Finance costs	(32,124,470)	88,863,638
Net finance income	**(25,008,699)**	**96,807,884**
Deficit for the year	**69,945,861**	**6,674,760**
Other comprehensive income ***Items that will be reclassified to surplus or deficit***		
Revaluation of property, plant and equipment		
Items that will never be reclassified to surplus or deficit		
Re-measurement of defined benefit liability	**35,348,000**	**39,690,000**
Total other comprehensive income for the year	**35,348,000**	**39,690,000**
Total comprehensive income for the year	**105,293,861**	**46,364,760**

During the year, the financial support from Norwegian Tax Administration and Mineral Value Chain Monitoring Project amounted to K9.4 million. Deferred income was K3.1 million while the Authority also received commission on the Kariba Dam toll fees amounting to K9, 568.00.

During the same period, the Authority was also appointed as a government profit collection agent to collect government share of the profits from the Kasumbalesa joint venture project. To this end, the Authority collected K46.0 million for the government of the Republic of Zambia for the period December 2015 to December 2017. 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 is included in the Authority's income for the year.

Recurrent Expenditure

During the year, staff costs accounted for the largest share of ZRA's recurrent expenditure at 76.6 percent followed by operational costs at 10.3 percent. Administrative costs accounted for 6.5 percent while depreciation and amortization accounted for 6.5 percent. Staff costs, in 2017, increased by 36.3 percent from the 2016 level as a result of recruitments and salary and wage adjustments. Administrative expenses increased by 30.3 percent, while other operating expenses increased by 35.3 percent over the same period last year.

Capital Expenditure

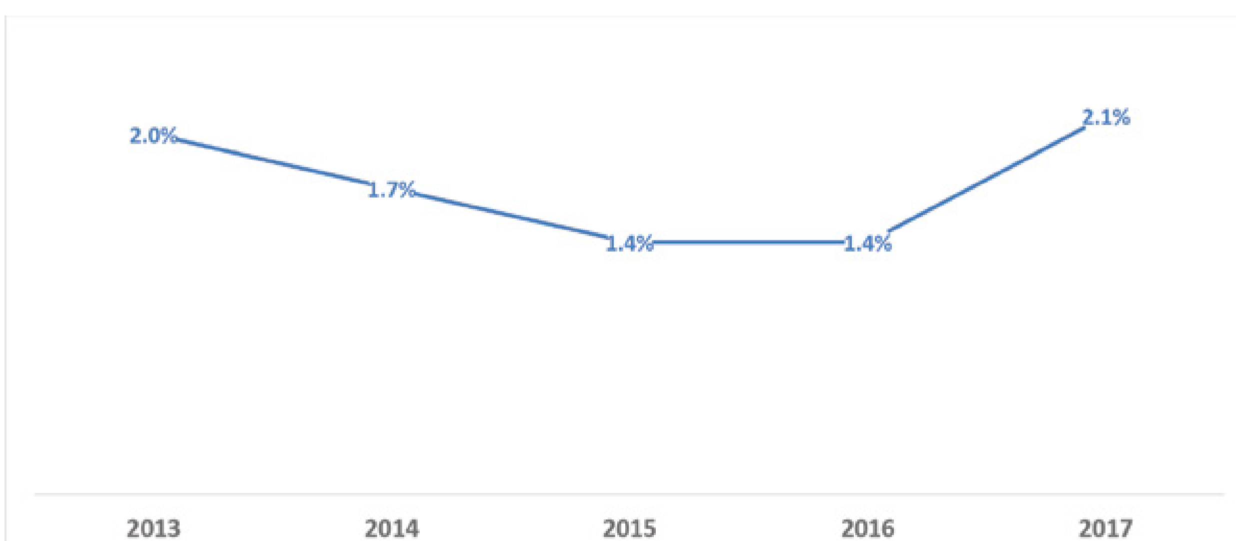
In addition to the above operating expenses, ZRA spent K107.9 million in capital expenditure.

The detailed financial performance based on Accrual Basis of Accounting is shown in the Financial Statements from pages 55 to 83.

Cost Of Tax Revenue Collection

In 2017 the cost of tax revenue collection ratio was 2.1 percent compared to the ratio of 1.4 percent recorded in 2016. The rise in the ratio was due to government decision to support among others the modernisation programme and other administrative initiatives aimed at enhancing domestic resource mobilisation. During the last five (5) years, the cost of tax revenue collection ratio has averaged at 1.7 percent, with its highest being 2.1 percent recorded in 2017.

Figure 31: Government funding as a percentage of collected tax revenue, 2013-2017



FINANCIAL STATEMENTS

ZAMBIA REVENUE AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2017

ZAMBIA REVENUE AUTHORITY

STATEMENT OF CHANGES IN CAPITAL FUND AND RESERVES
for the year ended 31 December 2017

	Capital deficiency K	Revaluation reserve K	Total K
At 1 January 2016	(373 241 760)	132 266 072	(240 975 688)
Total comprehensive loss for the year	48 783 240	(2 418 480)	46 364 760
Surplus for the year	6 674 760	-	6 674 760
Other comprehensive income:			
Gain on employee retirement benefit plan	39 690 000	-	39 690 000
Amortisation of revaluation surplus	2 418 480	(2 418 480)	-
Balance as at 31 December 2016	**(324 458 520)**	**129 847 592**	**(194 610 928)**
At 1 January 2017	**(324 458 520)**	**129 847 592**	**(194 610 928)**
Total comprehensive income for the year	**106 423 509**	**(2 418 480)**	**104 005 029**
Surplus for the year	**68 657 029**	**-**	**68 657 029**
Other comprehensive income:			
Gain on employee retirement benefit plan	35 348 000	-	35 348 000
Amortisation of revaluation surplus	2 418 480	(2 418 480)	-
At 31 December 2017	**(218 035 011)**	**127 429 112**	**(90 605 899)**

ZAMBIA REVENUE AUTHORITY

STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	Notes	2017 K	2016 K
Cash flows from operating activities			
Surplus for the year		**68 657 029**	6 674 760
Adjustments for:			
Amortisation of Mineral Value Chain, Norwegian Tax Administration and Investment Climate Facility grant	9	**(9 411 514)**	(5 217 160)
Amortisation of capital grant	10	**(3 126 077)**	(2 285 851)
Depreciation and amortisation	17	**62 404 637**	59 872 338
Amortisation of staff benefit		**372 976**	235 561
Impairment loss on employee loans and advances	20	**10 012**	118 000
Gain on disposal of equipment		**2 727 851**	(582 735)
Net exchange losses (gains) on borrowings	25	**29 211 586**	(88 528 941)
Interest paid on borrowings	25	**(4 078 139)**	(5 268 500)
Net finance income		**(7 115 771)**	(7 944 246)
Capital work in progress written off	17	**529 212**	-
Defined benefit obligation expense	23	**159 541 000**	140 369 000
Operating cash flows before movements in working operrating funds		**299 722 802**	97 442 226
Changes in operating funds:			
Increase in inventories		**(276 144)**	(1 573 530)
Increase in employee loans and advances		**(9 173 051)**	(17 066 755)
Increase in other assets		**(696 181)**	(8 444 540)
Increae in payables		**34 804 133**	944 970
		24 658 757	(26 139 855)
Employee benefits paid from plan	23	**(126 399 000)**	(62 431 000)
Net cash generated from operating activities		**197 982 559**	8 871 371
Cash flows from investing activities			
Interest received	15	**7 115 771**	7 944 246
Acquisition of property and equipment and intangible assets	17, 18	**(113 779 463)**	(28 997 183)
Proceeds from disposal of equipment		**835 396**	1 042 552
Investment Climate facility and Norwegian Tax Administration grant received	9	**8 903 640**	4 003 228
Investment Climate facility and Norwegian Tax Administration grant refunded	9	**(220 196)**	-
Capital grant received - World Bank	10	**127 798**	4 100 058
Net cash used in investing activities		**(97 017 054)**	(11 907 099)
Cash flows from financing activities			
Repayment of borrowings	25	**(49 456 750)**	(56 897 750)
Net cash used in financing activities		**(49 456 750)**	(56 897 750)
Net increase (decrease) in cash and cash equivalents		**51 508 755**	(59 933 478)
Cash and cash equivalents at beginning of the year		**53 254 724**	113 188 202
Cash and cash equivalents at end of the year	22	**104 763 479**	53 254 724

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

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
Kabwe Roundabout
P. O. Box 35710
Lusaka

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

2.1 Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Authority has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017.

Amendments to IAS 7 *Disclosure Initiative*

The Authority has applied these amendments in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Authority's liabilities arising from financing activities consist of borowings payable to Ministry of Finance as disclosed in note 24 to the financial statements. Consistent with the transition provisions of the amendments, the Authority has not disclosed comparative information for the prior period. The application of these amendments has had no impact on the Authority's financial statements.

2.2 New and revised IFRSs in issue but not yet effective

The Authority has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments1
IFRS 16	Leases2
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle1
IFRIC 22	Foreign Currency Transactions and Advance Consideration1

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

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

IFRS 9 *Financial Instruments (Continued)*

Key requirements of IFRS 9:

• all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

• with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

• in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

• the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Authority are still in the process of assessing the impact of this standard on the operations of the Company. It is expected that this standard will not have a material impact on how the company recognises its provisions for doubtful debts and how it classifies its financial assets and financial liabilities which will have to be in line with the business model.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2017

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

2.2 New and revised IFRSs in issue but not yet effective (Continued)

IFRS 16 *Leases (Continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

For finance leases where the Authority is a lessee, as the Authority has already recognised an asset and a related finance lease liability for the lease arrangement, and in cases where the Authority is a lessor (for both operating and finance leases), the directors of the Authority do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Authority financial statements.

Annual Improvements to IFRSs 2014 – 2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Company. The package also includes amendments to IFRS 12 which is mandatorily effective for the Company in the current year.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. The directors of the Company do not anticipate that the application of the amendments in the future will have any impact on the financial statements as the Company is neither a first-time adopter of IFRS nor a venture capital organisation. Furthermore, the Company does not have any associate or joint venture that is an investment entity.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non- monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The directors of the Authority do not anticipate that the application of the amendments in the future will have an impact on the Authority financial statements. This is because the Authority already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(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 IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 Impairment of 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 financial statements are presented in units of Zambia Kwacha.

The Authority had a capital deficiency of K218,035,011 (2016: K324,458,520) as at the reporting date, and as of that date its current liabilities exceeded its current assets by K49,547,064 (2016: K76,867,027). 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.

(c) Revenue recognition

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.

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.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Revenue recognition (continued)

Sale of cigarette stamps

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

(d) 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.

(e) Other income

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

(f) Interest income

Interest income is recognised using the effective interest rate method.

(g) 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 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Provisions

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.

(l) 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 are classified as 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.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) 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.

(iii) Financial liabilities

Financial liabilities are classified as payables, other liabilities and borrowings.

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

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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

ZAMBIA REVENUE AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2017

Table of contents	**Page No**

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (continued)

i) Retirement benefit obligations (continued)

(a) Pension obligations (continued)

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.

(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 IAS 37 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.

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 2017, 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

	2017 **K**	2016 K
Revenue	**1 061 738 375**	635 747 488
Surplus for the year	**68 657 029**	6 674 760

The surplus for the year of **K68.7** million (2016: K6.7 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
Mr. James Koni
Dr. Denny Kalyalya
Mr. Kamalesh M. Shah
Mr. Andrew M. Musukwa

A new board was appointed in March 2017 after the Minister of Finance dissolved the previous board in November 2016. The members that were reappointed from the previous board were Mr. Fredson K. Yamba, Dr. Denny Kalyalya and Mrs. Thandiwe D. Oteng.

EMPLOYEES

The total remuneration of employees during the year amounted to K740.8 million (2016: K543.7 million). The average number of employees for each month of the year was as follows:

Month	**Number**	**Month**	**Number**
January	1 652	July	1 710
February	1 629	August	1 721
March	1 621	September	1 719
April	1 623	October	1 718
May	1 684	November	1 733
June	1 689	December	1 755

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 K107.9 million (2016: K23.4 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 K618,974 (2016: K14,290).

AUDITOR

The Authority's Auditors, Messrs Deloitte & Touché, term of office comes to an end at the next Annual General Meeting. A resolution proposing the appointment of Auditors for the coming year and authorising the Directors to fix their remuneration will be put to the Annual General Meeting.

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 Intenational Financial Reporting Standards.

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 2017, the statement of comprehensive income, the statement of changes in capital fund and reserves and the statement of cash flows 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 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia.

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 the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA" code), together with ethical requirements that are relevant to our audit of the financial statements in Zambia. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. 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. Paragraph 58 of International Accounting Standard No. 19 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 recognized 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 2017 numbers. Ensured that the valuation met IAS 19 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 judgments 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;	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 Chairman's statement and Governing Board's Report, as required by the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia and which we obtained prior to the date of this auditor's report. 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. We also

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

C. CHUNGU (AUD/F000292)
PARTNER

DATE: 30 MAY 2018

ZAMBIA REVENUE AUTHORITY

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

	Notes	2017 K	2016 K
Revenue			
Government grants	6	**820 136 413**	441 820 838
Asycuda processing fees	7	**218 850 287**	179 489 151
Other income	8	**5 603 011**	6 930 623
Mineral Value Chain and Norwegian Tax Administration income	9	**9 411 514**	5 217 160
Deferred income	10	**3 126 077**	2 285 851
Kasumbalesa Agency Fees	11	**4 601 505**	-
Kariba Dam Agency Fees	11	**9 568**	3 865
		1 061 738 375	635 747 488
Expenditure			
Personnel expenses	12	**(740 830 631)**	(543 667 980)
Administrative expenses	13	**(63 751 338)**	(48 596 784)
Other operating expenses	14	**(101 086 041)**	(73 743 510)
Depreciation and amortisation expenses	17, 18	**(62 404 637)**	(59 872 338)
Surplus (deficit) from operating activities		**93 665 728**	(90 133 124)
Finance income	15	**7 115 771**	7 944 246
Net exchange (losses) gains	16	**(32 124 470)**	88 863 638
Net finance (costs) income		**(25 008 699)**	96 807 884
Surplus for the year		**68 657 029**	6 674 760
Other comprehensive income for the year			
Items that will not be reclassified to surplus or deficit			
Surplus on defined benefit plan	23	**35 348 000**	39 690 000
Total other comprehensive income for the year		**35 348 000**	39 690 000
Total comprehensive income for the year		**104 005 029**	46 364 760

ZAMBIA REVENUE AUTHORITY

STATEMENT OF FINANCIAL POSITION
at 31 December 2017

	Notes	2017 K	2016 K
ASSETS			
Non-current assets			
Property and equipment	17	**604 838 212**	558 647 993
Intangible assets	18	**45 228 896**	44 136 748
Employee loans and advances	20	**10 658 871**	8 461 355
		660 725 979	611 246 096
Current assets			
Inventories	19	**3 016 516**	2 740 372
Employee loans and advances	20	**31 976 613**	25 384 066
Other assets	21	**16 831 087**	16 134 906
Cash and cash equivalents	22	**104 763 479**	53 254 724
Customs deposit bank accounts	26	**5 417 837**	1 651 101
Tax refunds bank accounts	27	**4 271 699**	28 265 121
		166 277 231	127 430 290
TOTAL ASSETS		**827 003 210**	738 676 386
CAPITAL FUND, RESERVES AND LIABILITIES			
Capital fund and reserves			
Capital deficiency		**(218 035 011)**	(324 458 520)
Revaluation reserve		**127 429 112**	129 847 592
Net capital deficiency		**(90 605 899)**	(194 610 928)
Liabilities			
Non-current liabilities			
Deferred income	10	**817 312**	3 815 590
Post employment benefits	23	**336 306 728**	338 181 827
Borrowings	25	**364 660 774**	386 992 580
		701 784 814	728 989 997
Current liabilities			
Investment Climate Facility, Mineral Value Chain and Norwegian Tax Administration grants	9	**8 234 439**	8 962 509
Deferred income	10	**2 892 265**	2 892 265
Post employment benefits	23	**59 348 246**	59 679 146
Payables	24	**77 525 483**	42 721 352
Borrowings	25	**58 134 326**	60 125 823
Customs deposit bank accounts	26	**5 417 837**	1 651 101
Tax refunds bank accounts	27	**4 271 699**	28 265 121
		215 824 295	204 297 317
Total liabilities		**917 609 109**	933 287 314
TOTAL CAPITAL FUND, RESERVES AND LIABILITIES		**827 003 210**	738 676 386

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

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.

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 2017:			
- borrowings	58 134 326	282 540 956	82 119 818
- payables	77 525 483	-	-
- employee benefits	65 891 389	293 042 647	36 720 938
	201 551 199	575 583 603	118 840 755
At 31 December 2016:			
- borrowings	54 489 803	212 925 510	179 703 090
- payables	43 555 200	-	-
- employee benefits	55 800 275	259 714 459	82 346 239
	153 845 278	472 639 969	262 049 329

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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.

	Carrying value 2017	**Fair value 2017**	Carrying value 2016	Fair value 2016
Financial assets				
Employee loans and advances	**42 635 484**	**42 635 484**	33 845 421	33 845 421
Other assets	**16 831 087**	**16 831 087**	16 968 754	16 968 754
Customs deposit bank account	**5 417 837**	**5 417 837**	1 840 140	1 840 140
Tax refunds bank accounts	**4 271 699**	**4 271 699**	374 988 766	374 988 766
Financial liabilities				
Borrowings	**364 660 774**	**364 660 774**	447 118 403	447 118 403
Trade and other payables	**77 525 483**	**77 525 483**	42 721 352	42 721 352
Customs deposit bank accounts	**5 417 837**	**5 417 837**	1 840 140	1 840 140
Tax refund bank accounts	**4 271 699**	**4 271 699**	374 988 766	374 988 766

Fair value Hierarchy as at 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Employee loans and advances	-	-	42 635 484	**42 635 484**
Other assets	-	-	16 831 087	**16 831 087**
Customs deposit bank account	-	-	5 417 837	**5 417 837**
Tax refunds bank accounts	-	-	4 271 699	**4 271 699**
Financial liabilities				
Borrowings	-	-	364 660 774	**364 660 774**
Trade and other payables	-	-	77 525 483	**77 525 483**
Customs deposit bank accounts	-	-	5 417 837	**5 417 837**
Tax refund bank accounts	-	-	4 271 699	**4 271 699**

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

6. GOVERNMENT GRANTS

	2017 K	2016 K
Annual budgetary allocation	**768 664 000**	427 354 807
Supplementary funding	**51 472 413**	14 466 031
	820 136 413	441 820 838

Supplementary funding mainly comprises K22 million for the Electronic Fiscal Devices Project, K19 million supplementary funding for modernisation and K10 million for border management expenses

7. ASYCUDA PROCESSING FEES

Asycuda processing fees are derived from the charge of K324.50 per transaction for the processing of imported goods at the borders. This income is partly used to maintain the scanners that process imported goods.

8. OTHER INCOME

	2017 K	2016 K
Rental income	**1 955 950**	1 772 761
Cigarette stamps sales proceeds	**1 870 503**	1 929 102
Sundry income	**1 118 723**	1 218 370
Gain on disposal of property and equipment	**657 835**	2 010 390
	5 603 011	6 930 623

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

9. MINERAL VALUE CHAIN AND NORWEGIAN TAX ADMINISTRATION GRANTS

Tax Administration grants

	2017 K	2016 K
At beginning of the year	**8 962 509**	10 176 441
Receipts during the year	**8 903 640**	4 003 228
Refunds	**(220 196)**	-
Recognised in statement of comprehensive income	**(9 411 514)**	(5 217 160)
At end of the year	**8 234 439**	8 962 509
Broken down as follows:		
Mineral Value Chain Monitoring project (MVCMP)	**6 715 830**	4 736 177
Norwegian Tax Administration (NTA)	**1 518 609**	4 006 136
Investment Climate Facility (ICF)	**-**	220 196
	8 234 439	8 962 509

The Authority has 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 exists 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 Dec 2016

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

10. DEFERRED INCOME

	2017 K	2016 K
At beginning of the year	**6 707 855**	4 893 648
Receipts during the year	**127 798**	4 100 058
Recognised in statement of comprehensive income	**(3 126 077)**	(2 285 851)
At end of the year	**3 709 576**	6 707 855
Amounts falling due within one year	**2 892 265**	2 892 265
Amounts falling due after one year	**817 312**	3 815 590
	3 709 577	6 707 855

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 IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. 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.

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 **K4,601,505** (2016: Nil) reported in the statement of comprehensive income 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 **K9,568** (2016: K3,865) reported in the statement of comprehensive income represents 10% agency fees on the toll fees collected on behalf of Zambezi River Authority during the year.

12. PERSONNEL EXPENSES

	2017 K	2016 K
Basic pay	**276 217 825**	200 644 291
Retirement benefit expense	**164 801 587**	145 387 026
Leave pay	**94 334 761**	38 917 142
Housing allowance	**83 208 530**	70 225 321
Other allowances	**32 054 432**	23 111 178
Bonus	**26 669 410**	18 546 276
Overtime	**24 729 973**	16 050 685
NAPSA contributions	**15 212 503**	12 066 823
Medical expenses	**9 621 353**	8 900 700
Training	**6 257 435**	3 113 223
Staff welfare and professional subscriptions	**3 530 907**	2 638 251
Insurance	**3 229 579**	2 733 581
ART contribution	**962 336**	1 333 483
	740 830 631	543 667 980

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

13. ADMINISTRATIVE EXPENSES	2017 K	2016 K
Repairs and maintenance - buildings	**12 178 995**	9 476 793
Travel expenses	**8 111 399**	5 503 968
Printing and stationery	**8 062 079**	5 961 077
Advertising and public relations	**6 912 733**	3 596 670
Subscriptions and publications	**4 553 334**	3 806 724
Motor vehicle repairs	**3 661 245**	3 105 866
Office rentals	**3 163 397**	1 636 266
Postage and telephones	**3 123 855**	2 772 210
Corporate social responsibility	**3 020 391**	1 619 446
Electricity, water and rates	**2 612 529**	3 421 571
Fuel	**2 128 198**	2 478 680
Motor vehicle insurance and licence	**2 025 508**	1 249 171
Board expenses	**1 721 614**	1 449 316
Insurance	**874 897**	657 745
Bank charges	**645 205**	447 457
Audit expenses	**620 802**	713 869
Staff uniforms	**335 157**	1 531 738
Impairment of other assets	**-**	(831 783)
	63 751 338	48 596 784

14. OTHER OPERATING EXPENSES		
Repairs and maintenance - IT	**48 732 596**	32 733 193
Travel/relocation	**20 468 970**	14 302 852
Security	**15 283 677**	12 524 232
Advertising/promotional material and conferences	**5 614 645**	3 762 558
Field work - fuel	**2 837 301**	2 195 365
Legal and professional expenses	**1 827 306**	2 205 121
Other professional fees	**1 808 687**	1 105 413
Cigarette stamps	**1 677 160**	1 407 844
Scanner operations	**1 436 161**	1 904 257
Printing and stationery	**1 399 538**	1 602 675
	101 086 041	73 743 510

15. FINANCE INCOME

Relates to interest income on short term bank deposits.

16. NET EXCHANGE (LOSSES) GAINS

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

Mid market exchange rate at 1 January	**9.9**	11.1
Mid market exchange rate at 31 December	**10.1**	9.8
Average (depreciation) appreciation	**(2.03%)**	11.4%

The Zambian Kwacha marginary 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 loss on its foreign currency denominated monetary liabilities.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

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
Year ended 31 December 2016								
Opening carrying amount	32 881 900	177 816 605	277 538 695	28 165 102	8 240 970	5 089 226	61 688 884	591 421 382
Additions	-	-	128 997	2 707 735	7 118 182	1 172 557	12 311 272	23 438 743
Disposals	-	-	-	(143 043)	(4 200 848)	(93 201)	-	(4 437 092)
Transfers	-	10 043 437	415 917	-	-	-	(10 459 354)	-
Depreciation charge	-	(5 065 283)	(35 991 292)	(8 907 931)	(3 911 791)	(1 876 018)	-	(55 752 315)
Eliminated on disposal	-	-	-	92 782	3 884 493	-	-	3 977 275
Closing carrying amount	32 881 900	182 794 759	242 092 317	21 914 645	11 131 006	4 292 564	63 540 802	558 647 993
At 31 December 2016								
Cost or valuation	32 881 900	194 274 093	368 095 358	72 223 307	43 571 693	14 021 077	63 540 801	788 608 229
Accumulated depreciation	-	(11 479 334)	(126 003 041)	(50 308 662)	(32 440 687)	(9 728 512)	-	(229 960 236)
Carrying amount	32 881 900	182 794 759	242 092 317	21 914 645	11 131 006	4 292 565	63 540 801	558 647 993
Year ended 31 December 2017								
Opening carrying amount	32 881 900	182 794 759	242 092 317	21 914 645	11 131 006	4 292 565	63 540 801	558 647 993
Additions	-	-	559 360	11 687 256	18 629 083	6 174 272	70 804 111	107 854 083
Disposals	-	-	-	(10 847 835)	(4 769 122)	(1 184 820)	-	(16 801 777)
Transfers	-	25 188 425	48 425 579	-	-	-	(73 614 003)	-
Depreciation charge	-	(3 232 490)	(36 479 722)	(9 638 863)	(6 055 872)	(2 164 458)	-	(57 571 405)
Eliminated on disposal	-	-	-	10 410 859	2 063 414	764 257	-	13 238 530
Expensed*	-	-	-	-	-	-	(529 212)	(529 212)
Closing carrying amount	32 881 900	204 750 694	254 597 533	23 526 062	20 998 509	7 881 817	60 201 697	604 838 212
At 31 December 2017								
Cost or valuation	32 881 900	219 462 518	417 080 297	73 062 728	57 431 654	19 010 529	60 201 697	879 131 323
Accumulated depreciation	-	(14 711 824)	(162 482 763)	(49 536 666)	(36 433 145)	(11 128 713)	-	(274 293 111)
Carrying amount	**32 881 900**	**204 750 694**	**254 597 533**	**23 526 062**	**20 998 509**	**7 881 817**	**60 201 697**	**604 838 212**

* The capital work in progress expense assets relate to the costs incurred by the Authority in the creation of the debt recovery unit, director small and medium tax payers office and the cash office at Mulungushi house.

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

17. PROPERTY AND EQUIPMENT (CONTINUED)

Fair values of buildings

An independent valuation of the Authority's buildings was performed by valuers, Bitrust Real Estate Limited to determine the fair value of the land buildings. The last valuation was performed in 2013. 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:

	2017	2016
	K	K
Cost	**139 167 877**	113 979 452
Accumulated depreciation	**(22 523 471)**	(13 405 115)
Carrying amount	**116 644 405**	100 574 337

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 works in progress**	**Total**
COST	**K**	**K**	**K**
At 1 January 2016	45 766 894	3 908 745	49 675 639
Additions for the year	-	5 558 440	5 558 440
At 1 January 2017	45 766 894	9 467 185	55 234 079
Additions	-	5 925 380	5 925 380
Transfers	15 392 565	(15 392 565)	-
At 31 December 2017	**61 159 459**	-	**61 159 459**
Amortisation			
At 1 January 2016	(6 977 308)	-	(6 977 308)
Amortisation charge for the year	(4 576 689)	-	(4 576 689)
Amortisation adjustment*	456 666	-	456 666
At 1 January 2017	(11 097 331)	-	(11 097 331)
Amortisation charge for the year	(4 833 232)	-	(4 833 232)
At 31 December 2017	**(15 930 563)**	-	**(15 930 563)**
CARRYING AMOUNT			
At 31 December 2017	**45 228 896**	-	**45 228 896**
At 31 December 2016	34 669 563	9 467 185	44 136 748

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

18. INTANGIBLE ASSETS (CONTINUED)

Capital works in progress relate to Tax Online System.

*Amortisation adjustment relates to prior year over charge which has been adjusted for through statement of changes in capital fund.

19. INVENTORIES

	2017 K	2016 K
Stationery	**758 049**	517 402
Cigarette stamps	**1 838 333**	1 431 574
Uniforms	**140 103**	531 219
Other consumables	**280 031**	260 177
	3 016 516	2 740 372

No allowance has been made for obsolescence and slow moving inventory (2015: Nil).

The cost of inventories recognised in operating expenditure during the year was K2.7 million (2015: K1.1 million).

20. EMPLOYEE LOANS AND ADVANCES

	2017 K	2016 K
Other loans	**10 828 933**	11 224 712
Personal loans	**9 340 412**	6 860 772
Advances against gratuity	**12 109 006**	6 884 150
Home ownership loans	**733 970**	1 228 686
Vehicle ownership loans	**10 133 175**	8 147 101
	43 145 496	34 345 421
Impairment allowance	**(510 012)**	(500 000)
	42 635 484	33 845 421
Amounts falling due within one year	**31 976 613**	25 384 066
Amounts falling due after one year	**10 658 871**	8 461 355
Total employee loans and advances	**42 635 484**	33 845 421

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

Staff loans marked to market

	2017 K	2016 K
At beginning of year	**33 845 421**	17 514 227
Current year fair value	**12 976 817**	19 104 773
Amortisation to profit or loss	**(4 186 754)**	(2 773 579)
	42 635 484	33 845 421

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

20. EMPLOYEE LOANS AND ADVANCES (CONTINUED)

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.

	2017	2016
The prevailing interest rates on staff loans were as		
	%	%
Personal loan	**5**	5
Personal Development loan	**5**	5
House	**5**	5
Car loan	**5**	5

Movement in the impairment allowance	**2017**	2016
	K	K
At beginning of year	**500 000**	382 000
Recognised as an expense in current year	**10 012**	118 000
Balance at end of the year	**510 012**	500 000

21. OTHER ASSETS

Funding receivable from GRZ	**-**	10 000 000
Funds receivable from Kasumbalesa Concession	**8 193 253**	-
Other receivables	**7 961 245**	6 101 456
Impairment Allowance	**(29 478)**	(833 848)
Prepayments	**706 067**	867 298
	16 831 087	16 134 906

The carrying amounts of the other receivables approximate to

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	**104 763 479**	53 254 724
Held as follows:		
Zambia National Commercial Bank	**80 927 997**	45 659 216
Indo Zambia	**12 606 454**	9 065
Finance Bank Zambia	**5 639 466**	4 696 362
Bank of Zambia (Asycuda Fees)	**4 793 027**	1 866 430
Cash on hand	**661 636**	415 718
Stanbic Bank	**93 901**	563 783
Citi Bank	**10 000**	10 000
Bank ABC	**8 460**	9 760
First National Bank	**7 992**	8 840
Standard Chartered Bank	**7 200**	8 800
Eco Bank	**4 100**	6 750
Investrust Bank	**3 246**	-
Total cash and cash equivalents	**104 763 479**	53 254 724

ZAMBIA REVENUE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2017

23. EMPLOYEE BENEFITS

	2017 K	2016 K
End of contract gratuity	**131 650 207**	117 492 120
Retirement benefits	**264 004 767**	280 368 853
	395 654 974	397 860 973
Amounts falling due within one year	**59 348 246**	59 679 146
Amounts falling due after one year	**336 306 728**	338 181 827
	395 654 974	397 860 973
Movement in the present value of the defined benefit obligations:		
Defined benefit obligations at 1 January	**397 860 974**	359 612 974
Benefits paid by the plan	**(126 399 000)**	(62 431 000)
Service costs	**68 482 000**	59 143 000
Interest cost	**91 059 000**	81 226 000
Actuarial gains	**(35 348 000)**	(39 690 000)
Defined benefit obligation at end of year	**395 654 974**	397 860 974
Expense recognised in deficit or surplus		
Service costs	**68 482 000**	59 143 000
Interest costs	**91 059 000**	81 226 000
	159 541 000	140 369 000

The significant actuarial assumptions were as follows:

	31 December 2017		31 December 2016	
	Retirement benefits	**End of contract gratuities**	Retirement benefits	End of contract gratuities
Discount rate	**18.5%**	**18.0%**	23.5%	23.5%
Inflation	**6.1%**	**6.1%**	11.0%	11.0%
Future salary increases	**12.0%**	**12.0%**	15.0%	18.0%

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 2017

24. PAYABLES

	2017 K	2016 K
Accrued leave pay	**50 674 777**	24 699 763
Accrued expenses	**15 516 279**	13 052 249
Trade payables	**11 334 427**	4 969 340
	77 525 483	42 721 352

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

25. BORROWINGS

	2017 K	2016 K
Loan from Ministry of Finance	**422 795 100**	447 118 403
Amounts falling due within one year	**58 134 326**	60 125 823
Amounts falling due after one year	**364 660 774**	386 992 580
	422 795 100	447 118 403
At beginning of year	**447 118 403**	597 813 594
Loan repayments during the year	**(49 456 750)**	(56 897 750)
Loan interest paid during the year	**(4 078 139)**	(5 268 500)
Net exchange losses (gains) during the year	**29 211 586**	(88 528 941)
	422 795 100	447 118 403

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

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.

	2017	2016
	5 417 837	1 651 101

27. TAX REFUNDS BANK ACCOUNTS

	2017	2016
Value Added Tax (VAT) refund	**3 435 104**	27 011 660
Income tax refund	**678 149**	1 268 711
Customs refund	**158 446**	(15 250)
	4 271 699	28 265 121

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 2017

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 2017. 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

	2017 K	2016 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	**28 000 000**	13 000 000

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:

	2017 K	2016 K
Not later than 1 year	**5 344 243**	1 106 565
Later than 1 year and not later than 5 years	**10 688 486**	2 213 130
	16 032 729	3 319 694

30. RELATED PARTY TRANSACTIONS

Transactions with Government

	2017 K	2016 K
Funding received from Government	**768 664 000**	427 354 807
Scanner loan repayments to Government	**4 078 139**	62 166 250
	772 742 139	489 521 057

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:

	2017 K	2016 K
Salaries and other short-term employment benefits	**20 221 176**	17 696 960
Post-employment benefits	**7 707 065**	4 973 590
Directors Fees	**751 667**	1 020 862
	28 679 908	23 691 412

Loans to Commissioners

	2017 K	2016 K
Loans and advances	**2 506 764**	3 520 049

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

31. Events after the reporting date

There were no material significant events after the reporting date that require disclosure in or adjustment to the financial statements for the year ended 31 December 2017.

APPENDIX

Tax Revenues (Amounts in K'Millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Tax Revenue	550.5	725.2	954.4	1,090.30	1,289.60	1,739.50	2,448.60	2,848.80	3,549.50	4,554.30	5521.8
Income Tax	192.1	244	332	423.8	480.2	633.5	945.3	1,243.50	1,621.30	2,037.70	2461.5
Company Tax	34.2	54.7	78.5	85.7	91.4	125.2	195.5	279.4	290.7	333.2	454.5
Pay As You Earn (PAYE)	104.7	118.4	193.4	271.1	320.9	433.8	649.7	828.6	1,129.30	1,483.40	1721.9
Withholding Tax	24.4	54.2	41.2	49.8	54.5	70.6	93.5	136	193.2	216.7	245.9
Extraction Royalty	28.9	16.7	18.8	17.1	13.3	3.8	6.6	2.5	8.1	4.4	39.2
Domestic Goods & Services	70.3	277.7	342.5	390.3	471.5	513.1	676.7	773	858.4	1,062.20	1,394.60
Excise Duties	27.6	134.5	163.8	190.1	223	280.6	384.7	427.3	480.7	610.1	771.7
Domestic Value-Added Tax (VAT)	42.7	143.2	178.7	200.2	248.5	232.5	292	345.7	377.7	452.3	622.9
Trade Taxes	288.1	203.5	239	250.4	336.3	592.9	826.6	829.2	1,069.70	1,454.20	1,665.70
VAT on Imports	18	104.7	104.6	103.5	180.6	344.7	488.6	470.9	641.5	909.1	1,010.20
Import Tariffs	270.1	98.8	134.3	147	155.7	248.2	338	358.3	428.2	545.1	651.9
Export Duty	-	-	-	-	-	-	-	-	-	-	3.6
Import Declaration Fee	-	-	41	25.7	1.7	-	-	-	-	-	-
Total Value Added tax	60.7	247.9	283.3	303.7	429.1	577.2	780.6	816.6	1,019.30	1,361.40	1,633.10

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Tax Revenue	6,329.60	8,193.80	9,665.80	9,660.00	13,125.60	18,888.96	20,719.1	23,154.8	27,604.2	29,927.8	31,191.8	38,899.3
Income Tax	2,966.60	3,841.40	4,698.80	5,072.60	7,326.30	9,766.90	11,733.8	11,630.6	13,225.1	16,507.8	17,980.3	18,829.7
Company Tax	694.6	1,222.50	1,431.50	1375.8	2421.7	3,643.60	4,402.2	2,852.3	3,487.8	2,846.4	4,043.8	4,456.0
Pay As You Earn (PAYE)	1,939.20	2,199.00	2,565.30	2923.9	3866.3	4,519.30	4,934.0	5,738.7	6,426.8	7,444.1	8,146.9	8,669.4
Withholding Tax	274	352.4	442.9	538	636.3	736	939.0	1,278.9	1,543.6	2,468.1	2,736.5	3,269.0
Extraction Royalty	58.8	67.5	259.1	234.9	412	868	1,458.6	1,760.7	1,766.9	3,749.1	3,053.1	2,435.2
Domestic Goods & Services	1,385.60	1,231.70	993.7	1,330.30	1,887.40	1,629.70	1,918.9	3,525.0	6,011.0	4,786.7	2,087.4	8,801.1
Excise Duties	827.2	1,206.80	1,424.40	1023.2	1372.4	1,662.50	2,198.1	2,339.5	2,853.9	3,253.9	1,990.9	3,170.3
Domestic Value-Added Tax (VAT)	558.4	24.9	-430.7	307.1	515	-32.8	-279.2	1,185.5	3,157.1	1,532.8	96.5	5,630.9
Trade Taxes	1,977.40	3,120.70	3,973.30	3,257.10	3,911.90	5,739.70	7,066.5	7,999.1	8,368.1	8,633.3	9,813.5	11,200.9
VAT on Imports	1,233.10	2,204.30	2,631.70	2168.4	2644.6	3,997.30	5,030.8	6,178.3	6,396.6	6,703.9	7,860.4	8,256.5
Import Tariffs	742.4	914.1	1,159.90	1072	1262.6	1,737.80	2,032.2	1,808.4	1,948.9	1,901.9	1,917.8	2,930.6
Export Duty	1.9	2.3	181.7	16.7	4.7	4.5	3.6	12.4	22.6	27.5	35.3	13.7
Import Declaration Fee	-	-	-	-	-	-						
Total Value Added tax	1,791.50	2,229.20	2,201.00	2,475.50	3,159.60	3,964.60	4,751.6	7,363.8	9,553.7	8,236.7	7,957.0	13,887.4