

# **ZAMBIA REVENUE AUTHORITY**

## **Commissioner General's Presentation**

### **ICG AFRICA GROWTH FORUM**

#### **Ideas for Growth**

**Accra- Ghana**

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# Ideas for Growth

- a. Industrialization
- b. Technology transfer/development
- c. Formalisation of the informal sector
- d. Infrastructure development
- e. Resource mobilisation
- f. Intra-Africa trade

# Industrialisation- Ideas for Growth

- Pragmatic real sector industrial policies targeted at unique strengths of each country would work towards achieving the growth Africa needs
- Given that most of the resources Africa possesses are non-renewable, appropriate taxation of such resources is a potential area for leveraging growth

## Technology development- Ideas for Growth

- The acquisition of technology and its use in tax administration can lead to increase revenue mobilization e.g. in Zambia, we have implemented web based Domestic taxes and Customs systems
- Developing countries can rely on technologies as strategies for resource mobilisation e.g. the effective utilisation of mobile phone technology to devise convenient payment solutions of tax for informal sector players.

## **Formalisation - Ideas for Growth**

- Informality features prominently in most of the African economies
- From a tax revenue perspective, informality encourages tax evasion/avoidance leading to low tax revenues
- Tackling informality helps to widen the tax base as well as stimulates growth and improves the efficiency and equity in the economy

# Formalisation – Ideas for Growth

Issues about formalisation.

- Growth strategies should, therefore, focus on enhancing micro, small and medium enterprises' participation in the formal sector through:
  - providing access to: assets and cheaper financing by having low interest rates,
  - simplifying and making more predictable the legal and regulatory environment for businesses
  - Introduction of simplified tax regimes for improved compliance e.g. turnover / presumptive taxes

## **Infrastructure Development– Ideas for Growth**

- African countries must boost investment in infrastructure such as transport, bridges, seaports, banks, telecommunication and energy
- From the tax perspective with the investments being made in web based IT systems it has become necessary for investments in communications such as optic fiber technology

## Revenue Mobilisation- Ideas for Growth

- Tax revenue collections in developing countries are lower compared to developed countries
- The average tax to GDP ratio for sub - Saharan Africa is too low about 17 to 18 percent compared to over 30 percent for developed countries
- Strengthening domestic resource mobilization offers many potential benefits to African economies such as:
  - reduce the dependency on external flows
  - give African countries greater policy space, increasing their ownership of the development process

## **Revenue Mobilisation- Ideas for Growth**

- Further, Africa needs to deal with issues that make tax collection difficult. These include low levels of per capita income; cash transactions, employment taking place in the informal economy and also Base Erosion and Profit Shifting (BEPS) by multinationals
- In broad terms BEPS is a loss of substantial corporate tax revenue because of planning aimed at eroding the taxable base and /or shifting profits to locations where they are subject to a more favourable tax treatment

## **Base Erosion and Profit Shifting (BEPS)**

Ideas of combating BEPS:

- Enacting the legislative framework such as Transfer pricing and providing training of staff
- Renegotiate double taxation agreements that encourage treaty shopping. Some DTA's are even pre-colonial
- Design tax policy so that a fair share of revenue is collected without discouraging investment.
- Implement Mineral Production Value Chain Monitoring Mechanisms.
- The social impact of BEPS to be emphasized so that the morality of certain actions is questioned even when it is tax avoidance. Civil society organisations have added their voice

## **Intra-Africa trade - Ideas for Growth**

- Intra-Africa trade must be encouraged in order to maximize the gains from trade
- However, the low revenue from trade taxes are affected by trade protocols that exempt duties or result in reduced duty rates. There is need to reduce the cost of doing business and make border operations more efficient as this will lead to improved domestic revenue mobilization.

## Conclusion

- An area that has proved to be a big challenge for taxation in Zambia, is huge volume cash transactions in the informal sector.
- Research into taxation policy and administrative design of the cash economy is recommended.
- Research into the combatting of BEPS in developing countries by multinationals from developed economies
- Compliance gap research. However, the challenge is how to deal with confidentiality provisions in the law. Perhaps the use of alternative identification in place of using real taxpayers names and identification numbers.