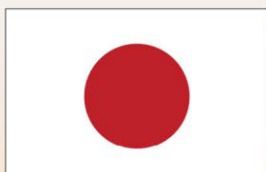


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## TAX ADMINISTRATION DIAGNOSTIC ASSESSMENT TOOL

# Performance Assessment Report Zambia

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## **ABBREVIATIONS AND ACRONYMS**

ACC	Anti-Corruption Commission
CIT	Corporate income tax
CIP	Compliance Improvement Plan
COMESA	Common Market for Eastern and Southern Africa
CSD	Customs Services Division
DMD	Design and Monitoring Department
DTD	Domestic Taxes Division
DRU	Debt Recovery Unit
GDP	Gross Domestic Product
IAU	Internal Audit Unit
LTO	Large Taxpayer Office
MoF	Ministry of Finance
PAYE	Pay-as-you-earn
PIT	Personal income tax
POA	Performance outcome area
RMF	Risk Management Framework
RTGS	Real Time Gross Settlement
SADC	Southern African Development Community
SMTO	Small and Medium Taxpayer Office
TADAT	Tax Administration Diagnostic Assessment Tool
TPIN	Taxpayer Identification Number
TSU	Taxpayer Services Unit in Design and Monitoring Department
VAT	Value-added tax
ZESCO	Zambia Electricity Supply Corporation
ZIPSS	Zambia Inter Bank Payment and Settlements System
ZRA	Zambia Revenue Authority

## **PREFACE**

At the request of Mr. Berlin Msiska, Commissioner General of Zambia Revenue Authority (ZRA), an assessment of the system of tax administration of Zambia was undertaken during the period of May 16–31, 2016, using the Tax Administration Diagnostic Assessment Tool (TADAT). TADAT provides an assessment baseline of tax administration performance that can be used to determine reform priorities and, with subsequent repeat assessments, highlight reform achievements. An assessment of Zambia’s system of tax administration was previously carried out in October–November 2013 during a pilot of the TADAT. However, due to changes in methodology, the scores in this assessment are not directly comparable.

The assessment team comprised the following: Mr. Enrique Rojas (IMF, mission Chief), Mr. Justin Zake (TADAT Secretariat), Ms. Charlestine Hardy (US Treasury), Ms. Agnes Kanyangeyo (Rwanda—TADAT expert), Mr. George Margesson (GIZ), Mr. Ernest Barkey Wolf (Netherlands), and Ms. Justine Nanziri (Uganda—TADAT expert).

The assessment team met with ZRA’s Commissioner General, Senior Management, and a cross section of operational staff. Field visits were made to various ZRA offices including the Large Taxpayer Office (LTO), Lusaka Small and Medium Tax Office, and the Kabwe Domestic Tax Office.

The Performance Assessment Report (PAR) was presented to ZRA’s Commissioner General and Senior Management Members during the exit meeting that was held on May 31, 2016.

The assessment team expresses its appreciation to ZRA management and staff for their hospitality and for the open, candid, and active participation in the assessment. Particular thanks go to Mr. Ezekiel Phiri (Director Research and Planning) and his staff for very effectively facilitating the assessment team’s work.

## EXECUTIVE SUMMARY

The results of the TADAT assessment for Zambia follow, including the identification of the main strengths and weaknesses.

### Strengths

- The ZRA has in place a comprehensive structured process to identify, assess, prioritize, and mitigate institutional risks
- A wide range of information is available through various channels, and feedback from taxpayers is regularly sought
- The TaxOnline system provides a strong foundation for taxpayer accounts, and enables high levels of electronic filing and payment
- Use of efficient collection systems such as withholding and advance payment is good
- Cases for audit are selected centrally, on the basis of identified risks
- A graduated dispute resolution process including a tax appeals tribunal exists and is used
- The revenue accounting system is robust, and funds for repayment claims are ring-fenced
- Regular internal and external audits provide good oversight and accountability
- Annual reports, strategic plans, and responses to audit findings are produced in a timely manner and published

### Weaknesses

- There is uncertainty on the number of registered taxpayers and overall, the accuracy of the taxpayer registration database
- Very low rates of on-time filing across all core tax types
- The value of tax arrears is very high, casting doubt on debt management procedures
- Management of compliance risks is weak and fragmented, and outcomes of compliance activities, including audits, are not evaluated. Bulk data crossmatching is not used
- ZRA's handling of disputes is not independent of the audit process and there is no set period within which an administrative review must be completed
- An ombudsman exists but is not used for addressing complaints about ZRA
- The revenue accounting system does not interface with that of the Ministry of Finance
- There are significant delays in processing claims and making VAT refunds
- ZRA does not have a system of public or private binding rulings or cooperative compliance arrangements

**ZRA has a sound tax administration structure, with a number of systems which encourage taxpayer compliance.** The TaxOnline system is clearly of benefit to both taxpayers and ZRA. The Authority is relatively transparent and focuses on encouraging voluntary compliance by providing a wide range of information and support, and seeking taxpayers' feedback regularly.

**However, in some key areas, poor outcomes have been observed**—for example, in low on-time filing rates, very high levels of arrears, and a backlog of VAT refund claims. The database of registered taxpayers contains inaccuracies including a large number of inactive taxpayers. These issues point towards generally low taxpayer compliance. Furthermore, systems to analyze and manage compliance risks are fragmented. There is little evidence of analysis of internal or external data or of audit outcomes to improve internal decision making and taxpayer compliance.

**Table 1 provides a summary of performance scores, and Figure 1 is a graphical snapshot of the distribution of scores.** The scoring is structured around the TADAT framework's 9 performance outcome areas (POAs), and 28 high level indicators critical to tax administration performance. An 'ABCD' scale is used to score each indicator, with 'A' representing the highest level of performance and 'D' the lowest.

**Table 1. Zambia: Summary of TADAT Performance Assessment**

INDICATOR	Score 2016	SUMMARY EXPLANATION OF ASSESSMENT
<b>POA 1: Integrity of the Registered Taxpayer Base</b>		
P1-1. Accurate and reliable taxpayer information.	<b>D</b>	The taxpayer registration database is fully computerized, centralized and the design (including of the TPIN) meets international good practice standards. However, there is uncertainty on the number of registered taxpayers and overall, the accuracy of the taxpayer registration database.
P1-2. Knowledge of the potential taxpayer base.	<b>C</b>	The ZRA has prioritized the identification of unregistered taxpayers through its strategy of widening the tax base. However, third party information is not routinely and systematically used to detect unregistered taxpayers.
<b>POA 2: Effective Risk Management</b>		
P2-3. Identification, assessment, ranking, and quantification of compliance risks.	<b>C</b>	The ZRA carries out intelligence gathering and research to identify compliance risks; however, the use of external sources is limited and it lacks documented estimates of tax revenue leakage from noncompliance.
P2-4. Mitigation of risks through a compliance improvement plan.	<b>C</b>	The ZRA has a fragmented approach to a formal compliance improvement plan.
P2-5. Monitoring and evaluation of compliance risk mitigation activities.	<b>C</b>	The impact of risk mitigation activities on taxpayer compliance is regularly monitored by the ZRA, but is only occasionally evaluated and documented.
P2-6. Identification, assessment, and mitigation of institutional risks.	<b>A</b>	The ZRA has in place a comprehensive structured process to identify, assess, prioritize, and mitigate institutional risks
<b>POA 3: Supporting Voluntary Compliance</b>		
P3-7. Scope, currency, and accessibility of information.	<b>C</b>	A wide range of information is available. The information for taxpayers is mostly current, although there are no procedures ensuring this and updates are made ad hoc. Taxpayers can obtain information easily but the call center is not toll-free. ZRA responds to taxpayer requests for information quickly.

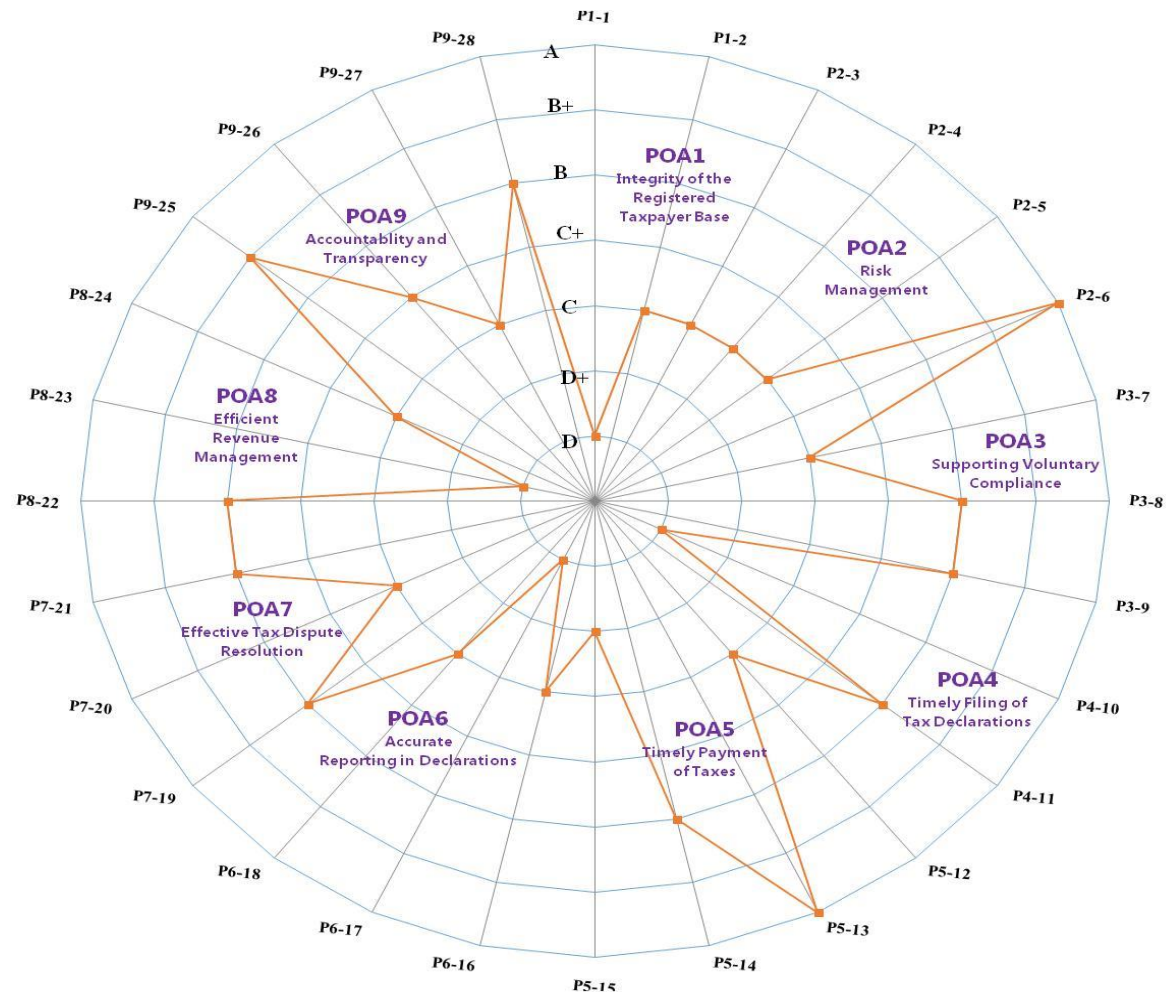


P3-8. Scope of initiatives to reduce taxpayer compliance costs.	<b>B</b>	There are simplified procedures. There is a well- functioning on-line platform. FAQs are ranked but not analyzed regularly.
P3-9. Obtaining taxpayer feedback on products and services.	<b>B</b>	ZRA obtains feedback on the standard of services on a regular basis. Taxpayer input on procedures is taken into account in designing systems and processes. Nevertheless, this is done on an ad hoc basis.
<b>POA 4: Timely Filing of Tax Declarations</b>		
P4-10. On-time filing rate.	<b>D</b>	On-time filing rates are low across all core taxes: CIT 24 percent, PIT 15 percent, PAYE 28 percent, VAT 45 percent.
P4-11. Use of electronic filing facilities.	<b>B</b>	ZRA facilitates and encourages filing of electronic declarations. At least 90 percent of large taxpayers and at least 70 percent of declarations are filed electronically for each of the core taxes.
<b>POA 5: Timely Payment of Taxes</b>		
P5-12. Use of electronic payment methods.	<b>C</b>	Electronic payments platforms are available for all core taxes under the TaxOnline system. On average 89 percent of CIT, VAT and PAYE payments are made electronically and only 1 percent for PIT payments.
P5-13. Use of efficient collection systems.	<b>A</b>	Withholding at source is available for all employment income, interest and dividends. Advance payment arrangements are in place for all business income.
P5-14. Timeliness of payments.	<b>B</b>	A fairly large percentage of VAT is paid on time. Around 82 percent of the value of total VAT payments due is paid on time, and some 89 percent of the number of VAT payments are received on time.
P5-15. Stock and flow of tax arrears.	<b>D+</b>	The level of overall tax arrears and collectible tax arrears is high. On average, old debts (more than 12 months) account for over 70 percent of total arrears.
<b>POA 6: Accurate Reporting in Declarations</b>		
P6-16. Scope of verification actions taken to detect and deter inaccurate reporting.	<b>C</b>	ZRA has an audit program that addresses key elements, and selects audit cases centrally; however, it does not analyze/evaluate the impact of audits on levels of taxpayer compliance and there has been no large-scale automated crosschecking of information.

P6-17. Extent of proactive initiatives to encourage accurate reporting.	<b>D</b>	ZRA does not have a system of public or private binding rulings or cooperative compliance arrangements.
P6-18. Monitoring the extent of inaccurate reporting.	<b>C</b>	ZRA's monitoring of the extent of inaccurate reporting using a method that satisfies international good standards but is limited to VAT.
<b>POA 7: Effective Tax Dispute Resolution</b>		
P7-19. Existence of an independent, workable, and graduated dispute resolution process.	<b>B</b>	Although a three-tiered dispute resolution is in use, there is mixed practice at the administrative review stage with audit case officers in some stations being directly involved in the review of objections.
P7-20. Time taken to resolve disputes.	<b>C</b>	No service delivery standards exist for time taken to complete administrative reviews. However, the data (in Attachment III, Table 12) shows that 89 percent of the cases were completed in 60 days and that all cases were completed within 90 days.
P7-21. Degree to which dispute outcomes are acted upon.	<b>B</b>	ZRA analyzes dispute outcomes of a material nature and initiates administrative and legislative changes as necessary. However, there is no regular monitoring and analysis of dispute outcomes.
<b>POA 8: Efficient Revenue Management</b>		
P8-22. Contribution to government tax revenue forecasting process.	<b>B</b>	ZRA has strong analytical capability to monitor and forecast revenue collections and, implicitly, VAT refunds. Tax expenditures are monitored on an ad hoc basis but losses carried forward are not.
P8-23. Adequacy of the tax revenue accounting system.	<b>D</b>	ZRA has good accounting systems which meet government standards. Payments are posted within two days and the system is audited regularly. However, there is no direct interface with the Ministry of Finance's accounting system.
P8-24. Adequacy of tax refund processing	<b>C</b>	ZRA's VAT refund system operates on a risk basis and ensures that funds are available for approved refunds. However, processing of claims is slow and there is a significant backlog of refund claims.

POA 9: Accountability and Transparency		
P9-25. Internal assurance mechanisms.	<b>B+</b>	ZRA has an independent Internal Audit Unit, and an independent Internal Affairs Unit. External (independent) review of Internal Audit processes and procedures is in excess of five years.
P9-26. External oversight of the tax administration.	<b>C+</b>	Strong processes exist for the external oversight of ZRA. Regular financial and operational audits are carried out and ZRA works closely with the Anti-Corruption Commission. However, an ombudsman is not regularly used for taxpayers' complaints.
P9-27. Public perception of integrity.	<b>C</b>	ZRA has a good mechanism for monitoring public confidence in the organization. Every two years an extended 'taxpayer perception survey report' is made by an external expert. These reports have not been made public so far.
P9-28. Publication of activities, results, and plans.	<b>B</b>	The annual report outlining the financial and operational performance is prepared and submitted to the Ministry of Finance, and is made public in a timely manner. A 3-year strategic plan is prepared and published in advance of the plan period but none of the operational plans are made public.

Figure 1. Zambia: Distribution of Performance Scores



Indicator	Score
P1-1	D
P1-2	C
P2-3	C
P2-4	C
P2-5	C
P2-6	A
P3-7	C
P3-8	B
P3-9	B
P4-10	D
P4-11	B
P5-12	C
P5-13	A
P5-14	B
P5-15	D+
P6-16	C
P6-17	D
P6-18	C
P7-19	B
P7-20	C
P7-21	B
P8-22	B
P8-23	D
P8-24	C
P9-25	B+
P9-26	C+
P9-27	C
P9-28	B

## I. INTRODUCTION

This draft report documents the results of the TADAT assessment conducted in Zambia during the period of May 16–31, 2016 and subsequently will be reviewed by the TADAT Secretariat. The report is structured around the TADAT framework of 9 POAs and 28 high level indicators critical to tax administration performance that are linked to the POAs. Forty-seven measurement dimensions are taken into account in arriving at each indicator score. A four-point ‘ABCD’ scale is used to score each dimension and indicator:

- ‘A’ denotes performance that meets or exceeds international good practice. In this regard, for TADAT purposes, a good practice is taken to be a tested and proven approach applied by a majority of leading tax administrations. It should be noted, however, that for a process to be considered “good practice,” it does not need to be at the forefront or vanguard of technological and other developments. Given the dynamic nature of tax administration, the good practices described throughout the field guide can be expected to evolve over time as technology advances and innovative approaches are tested and gain wide acceptance.
- ‘B’ represents sound performance (i.e., a healthy level of performance but a rung below international good practice).
- ‘C’ means weak performance relative to international good practice.
- ‘D’ denotes inadequate performance, and is applied when the requirements for a ‘C’ rating or higher are not met. Furthermore, a ‘D’ score is given in certain situations where there is insufficient information available to assessors to determine and score the level of performance. For example, where a tax administration is unable to produce basic numerical data for purposes of assessing operational performance (e.g., in areas of filing, payment, and refund processing) a ‘D’ score is given. The underlying rationale is that the inability of the tax administration to provide the required data is indicative of deficiencies in its management information systems and performance monitoring practices.

For further details on the TADAT framework, see Attachment I.

Some points to note about the TADAT diagnostic approach are the following:

- TADAT assesses the performance outcomes achieved in the administration of the major direct and indirect taxes critical to central government revenues, specifically corporate income tax (CIT), personal income tax (PIT), value-added tax (VAT), and pay-as-you-earn (PAYE) amounts withheld by employers (which, strictly speaking, are remittances of PIT). By assessing outcomes in relation to administration of these

core taxes, a picture can be developed of the relative strengths and weaknesses of a country's tax administration.

- TADAT assessments are evidence based (see Attachment V for the sources of evidence applicable to the assessment of Zambia).
- TADAT is not designed to assess special tax regimes, such as those applying in the natural resource sector, nor does it assess customs administration.
- TADAT provides an assessment within the existing revenue policy framework in a country, with assessments highlighting performance issues that may be best dealt with by a mix of administrative and policy responses.

The aim of TADAT is to provide an objective assessment of the health of key components of the system of tax administration, the extent of reform required, and the relative priorities for attention. TADAT assessments are particularly helpful in:

- identifying the relative strengths and weaknesses in tax administration;
- facilitating a shared view among all stakeholders (country authorities, international organizations, donor countries, and technical assistance providers);
- setting the reform agenda (objectives, priorities, reform initiatives, and implementation sequencing);
- facilitating management and coordination of external support for reforms, and achieving faster and more efficient implementation; and
- monitoring and evaluating reform progress by way of subsequent repeat assessments.

## **II. COUNTRY BACKGROUND INFORMATION**

### **A. Country Profile**

Zambia is a lower middle income country in the southern part of Africa. It is a landlocked country and is surrounded by eight (8) neighbors. It is a member country of the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) sub-regional groupings. Zambia operates a self-assessment based progressive tax system and the Zambia Revenue Authority (ZRA) is mandated by law to collect taxes on behalf of the government.

## **B. Data Tables**

Numerical background data provided by the authorities and used in this TADAT performance assessment is contained in the tables comprising Attachment III.

## **C. Economic Situation**

Zambia has had one of the world's fastest growing economies for the past ten years, with real GDP growth averaging roughly 6.7 percent per annum. Zambia's dependency on copper makes it vulnerable to depressed commodity prices, but record high copper prices and a bumper maize crop in 2010 helped Zambia rebound quickly from the world economic slowdown that began in 2008. Privatization of government-owned copper mines in the 1990s relieved the government from covering significant losses generated by the industry and greatly increased copper mining output and profitability, spurring economic growth. Copper output increased steadily from 2004, due to higher copper prices and foreign investment, but weakened in 2014, and Zambia was overtaken by the Democratic Republic of Congo as Africa's largest copper producer.

Zambia raised \$3 billion from international investors by issuing separate sovereign bonds in September 2012, April 2014, and July 2015, significantly increasing the country's public debt as a share of GDP to 32.7 percent from 30.1 percent the previous year. The country's main export products include copper cathodes and sections of cathodes of refined copper, copper blisters, sulfuric acid, and oleum in bulk, while main import products are structures and parts of iron or steel, urea, gas oils, ceramic electrical insulators, generating sets (excluding wind-powered), bitumen and asphalt.

The falling copper revenues resulting from the low copper prices and coupled with the power shortage that hit the country in 2015 saw a reduction in copper exports and a lower than expected GDP growth. GDP growth forecast for Zambia is expected to drop in 2016 and the World Bank predicts that the growth will drop to 3 to 3.5 percent lower than the 2016 targeted growth of above 5 percent. Slower growth and lower mining revenues has caused large fiscal deficits. Mining revenues, which directly contributed about 17 percent of total government revenue in 2012, fell to under 13 percent by 2015. The depreciating Kwacha caused a further slowdown in economic activity and increased the trade deficit to one of its highest in the past five years. Notwithstanding these challenges, Zambia's growth is expected to rebound in 2017 to a projected 5 percent owing to a rebound in copper prices on the international market, a stable political environment and prudential management of fiscal policy.

## **D. Main Taxes**

Zambia's main domestic taxes comprise CIT, PIT, VAT and Excise duties. During 2013, 2014, and 2015, revenues collected from core taxes (as defined by the TADAT framework—

see Attachment III, Table 1) averaged 10.9 percent of GDP. Other taxes collected by ZRA include trade taxes (customs).

Value Added Tax (VAT), including VAT on imports, is the largest contributor to domestic tax revenues (27.6 percent), followed by PAYE (24.9 percent), other domestic taxes (20.8 percent), and CIT (9.5 percent). In terms of core taxes, VAT has contributed an average of 31.4 percent of domestic tax revenues over the three-year period. Further details on tax revenue collections are provided in Attachment III, Table 1.

### **E. Institutional Framework**

The operations of ZRA are overseen by the Governing Board which is instituted by the Minister of Finance as provided for in the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia.<sup>1</sup> The Board supervises the Commissioner General—the Chief Executive Officer of ZRA—who is assisted by a senior management team. An organizational chart of the tax administration is provided in Attachment IV.

### **F. International Information Exchange**

Zambia is not a member of the Organization for Economic Cooperation and Development's Global Forum on Transparency and Exchange of Information for Tax Purposes. The Authority has further not been subjected to the Global Forum's peer review process that examines both the legal and regulatory aspects of information exchange. Zambia has various Double Taxation Agreements (DTAs) with twenty-two countries<sup>2</sup> and the ZRA is currently implementing the International Tax Information Exchange initiative that enables countries to enter into tax information exchange agreements through the IMF ISORA/RA-FIT program and the African Tax Outlook platform.

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<sup>1</sup> The governing board comprises: the Secretary to the Treasury, the Permanent Secretary in the Ministry of Justice, the Governor of the Bank of Zambia; representatives from: the Law Association of Zambia, the Zambia Association of Chambers of Commerce and Industry, the Bankers' Association of Zambia, the Zambia Institute of Chartered Accountants; and two other members appointed by the Minister of Finance. The members of the Board elect the Chairman and the Vice-Chairman from amongst themselves.

<sup>2</sup> The countries include: Canada, China, Botswana, Denmark, Finland, France, Germany, Netherlands, India, Ireland, Italy, Japan, Kenya, Mauritius, Norway, Seychelles, South Africa, Sweden, Switzerland, Tanzania, Uganda and the United Kingdom.



### III. ASSESSMENT OF PERFORMANCE OUTCOME AREAS

#### A. POA 1: Integrity of the Registered Taxpayer Base

A fundamental initial step in administering taxes is taxpayer registration and numbering. Tax administrations must compile and maintain a complete database of businesses and individuals that are required by law to register; these will include taxpayers in their own right, as well as others such as employers with PAYE withholding responsibilities. Registration and numbering of each taxpayer underpins key administrative processes associated with filing, payment, assessment, and collection.

Two performance indicators are used to assess POA 1:

- P1-1—Accurate and reliable taxpayer information.
- P1-2—Knowledge of the potential taxpayer base.

##### P1-1: Accurate and reliable taxpayer information

For this indicator two measurement dimensions assess (1) the adequacy of information held in the tax administration's registration database and the extent to which it supports effective interactions with taxpayers and tax intermediaries (i.e., tax advisors and accountants); and (2) the accuracy of information held in the database. Assessed scores are shown in Table 2 followed by an explanation of reasons underlying the assessment.

**Table 2. P1-1 Assessment**

Measurement Dimensions	Scoring Method	Score 2016	
P1-1-1. The adequacy of information held in respect of registered taxpayers and the extent to which the registration database supports effective interactions with taxpayers and tax intermediaries.	M1	B	D
P1-1-2. The accuracy of information held in the registration database.		D	

**The Zambia Income Tax Act (Cap 323, sections 45 and 45A) and the Value Added Tax (VAT) Act (Cap 331, sections 27–29) provide for who should register for the core taxes.** The VAT Act further stipulates who can register voluntarily and the related conditions. VAT registration requirements are amplified further in the VAT Guide (Part 2). The ZRA is the sole taxpayer registration body in Zambia, and the Taxpayer Services Unit (TSU) under the Design and Monitoring Department (DMD) of the Domestic Taxes Division (DTD) manages the registration function. The TSU has a headquarters complement of five staff, with a replication of the function across Zambia in the 13 DTD field offices; and the 35 Customs

Services Division (CSD) stations. Taxpayers can also register at offices located at the Ministry of Lands and the Zambia Development Agency.

**The taxpayer registration database is fully computerized, centralized and its design meets international good practice standards.** A unique 10-digit taxpayer identification number (TPIN) is used across all taxpayers and proof of identity requirements are in place.<sup>3</sup> Since October 2013, taxpayers can register online using the TaxOnline integrated tax administration system. Taxpayers without access to online facilities have the option of registering using a paper form (Form 1) and its Annexures.<sup>4</sup> The information is then keyed into the system by ZRA staff. Information required of the taxpayer includes full name, address (personal, business and postal), other contact details, dates of incorporation of business, nature of business activity and filing and payment obligations. The system (TaxOnline) also identifies taxpayers according to segments, industry classification (the latest ISIC version 4 is used),<sup>5</sup> and is capable of identifying entities and related parties to the taxpayer<sup>6</sup>—a function that is currently not fully utilized.

**Although the registration TaxOnline sub-system interfaces with other subsystems<sup>7</sup>, taxpayer details have not yet been used to generate pre-filled tax declarations.** Nevertheless, frontline staff (subject to access rights) can view, nationwide, taxpayers' identifying particulars and details across all core taxes; and the system allows for the deactivation or deregistration of taxpayers. A current challenge is that not all taxpayers' information that has been migrated from the older legacy systems to TaxOnline is accurate. Thus, a complete picture of the taxpayer profile is not readily available. The assessment team was not able to ascertain the material nature of the un-transferred information and its potential impact on the accuracy of information in the registration database; or compliance management in general. Taxpayers or their agents are able to access the TaxOnline portal 24 hours a day, seven days a week and update authorized details held in the database.

**Pointers to taxpayer registration inaccuracy issues were manifest in the ZRA's including uncertainty over active and inactive taxpayers—Annex III, Table 2.** Only

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<sup>3</sup> For example, individuals registering for tax purposes are required to produce a National Registration Card (NRC) and incorporated entities proof of incorporation.

<sup>4</sup> The annexures include additional information required for Base Tax, Mineral Royalty, PAYE, Withholding Tax, Presumptive Tax, VAT, Excise Duty and Adding a Place of Business.

<sup>5</sup> The International Standard Industrial Classification of All Economic Activities.

<sup>6</sup> For example, details of shareholders, subsidiary companies or corporate grouping arrangements.

<sup>7</sup> Including filing and payments, audit and assessment, debt collection, objections and appeals, investigations and refunds.

information from TaxOnline was provided to the assessment team and discussions with TSU staff suggested that the register may not be complete. The authorities (in their post-in-country phase comments) provided additional information to the effect that the number of taxpayer registrations (which include TPINs only) was 56,021 in 2014 and 49,524 in 2015. This would bring the total number of taxpayers managed by ZRA (including those for TPINs only) to 345,806. However, this number is still at variance with data provided in Annex III Table 2—that shows a total taxpayer population<sup>8</sup> of 242,501 at end-215. Moreover, during the in-country discussions, the ZRA Internal Audit team made reference to uncertainties on the accuracy of the registration database, and this has also been raised in internal and external audit reports. This issue impacts all other POAs and although some of the ‘B’ rating conditions are satisfied under P1-1 dimension 2, the unreliability and incompleteness of the information provided, including the post-in-country assessment phase comments, is insufficient to allow a rating higher than a ‘D.’ The ‘D’ level rating stands.

**Verification of the accuracy of information held in the taxpayer registration database against third party data is performed on an ad hoc basis.** The assessment team was informed, explicitly, that there is no use of third party information received, say from the CSD—also managed under ZRA—or the Financial Intelligence Center to deliberately and routinely and systematically check on the accuracy of registered taxpayer particulars. The opportunity to do this automatically and seamlessly with customs data exists by creating an interface between TaxOnline and the ASYCUDA system.<sup>9</sup> A project to clean up the taxpayer registration database is currently ongoing.

### P1-2: Knowledge of the potential taxpayer base

This indicator measures the extent of tax administration efforts to detect unregistered businesses and individuals. The assessed score is shown in Table 3 followed by an explanation of reasons underlying the assessment.

**Table 3. P1-2 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P1-2. The extent of initiatives to detect businesses and individuals who are required to register but fail to do so.	<b>M1</b>	<b>C</b>

<sup>8</sup> Totals of active and inactive (not deregistered) CIT, PIT and other taxpayers for 2014 and 2015.

<sup>9</sup> The ASYCUDA system is used in customs.

**It is a specific requirement for the ZRA divisions and departments to develop their annual action plans in line with the corporate Strategic Plan.** As such, detecting unregistered businesses and individuals is part of the compliance improvement strategy. Annual work plans with key performance indicators are developed to support the strategy; and monthly monitoring reports are used to monitor achievements, including for taxpayer registration. The annual reports contain a summary of taxpayers' registration performance.

**The ZRA has prioritized the identification of unregistered taxpayers through its strategy of widening the tax base.**<sup>10</sup> A 'block management initiative' that zones areas for compliance improvement management has been used to identify non-compliant taxpayers. For example, the ZRA 2014 annual report indicates that, *"...out of 810 taxpayers in the block, 725 were migrated to TaxOnline and 15 of these were identified as having registered for income tax but not for VAT...."* Further, a door-to-door education campaign was carried out in the same area focusing mainly on withholding tax on rental income and the use of the TaxOnline e-services—also relevant to POA3. However, an outcomes approach to evaluate and report on the impact of initiatives undertaken to identify unregistered taxpayers has not been in use although such initiatives are planned during calendar year 2016.

**Notwithstanding that inspection of business premises and traders does take place, third party information is not routinely and systematically used to detect unregistered taxpayers.** Various sources of third party information were cited by ZRA, for example, from the Financial Intelligence Agency, ZRA's CSD, Ministry of Foreign Affairs—on locally sourced employees subject to income tax, and the electricity company ZESCO. The ZRA asserted, however, that only ad hoc use is made of this information including for case-by-case audit or investigation purposes.

## **B. POA 2: Effective Risk Management**

Tax administrations face numerous risks that have the potential to adversely affect revenue and/or tax administration operations. For convenience, these risks can be classified as:

- Compliance risks—where revenue may be lost if businesses and individuals fail to meet the four main taxpayer obligations (i.e., registration in the tax system, filing of tax declarations, payment of taxes on time, and complete and accurate reporting of information in declarations).

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<sup>10</sup> See Zambia Revenue Authority, Annual Report 2013, pp. 14-15; and Zambia Revenue Authority, Annual Report 2014, pp. 14-15

- Institutional risks—where tax administration functions may be interrupted if certain external or internal events occur, such as natural disasters, sabotage, loss or destruction of physical assets, failure of information technology system hardware or software, strike action by employees, and administrative breaches (e.g., leakage of confidential taxpayer information which results in loss of community confidence and trust in the tax administration).

Risk management is essential to effective tax administration and involves a structured approach to identifying, assessing, prioritizing, and mitigating risks. It is an integral part of multi-year strategic and annual operational planning.

Four performance indicators are used to assess POA 2:

- P2-3—Identification, assessment, ranking, and quantification of compliance risks.
- P2-4—Mitigation of risks through a compliance improvement plan.
- P2-5—Monitoring and evaluation of compliance risk mitigation activities.
- P2-6—Identification, assessment, and mitigation of institutional risks.

### P2-3: Identification, assessment, ranking, and quantification of compliance risks

For this indicator two measurement dimensions assess (1) the scope of intelligence gathering and research to identify risks to the tax system; and (2) the process used to assess, rank, and quantify compliance risks. Assessed scores are shown in Table 4 followed by an explanation of reasons underlying the assessment.

**Table 4. P2-3 Assessment**

Measurement Dimensions	Scoring Method	Score 2016	
P2-3-1. The extent of intelligence gathering and research to identify compliance risks in respect of the main tax obligations	M1	C	C
P2-3-2. The process used to assess, rank, and quantify taxpayer compliance risks.		C	

**Since 2006, the ZRA has had in place a Risk Management Policy that has been the base of its risk management framework (RMF).** The RMF includes a Risk Management Policy—that was updated in October 2014—to make the Authority a risk-aware organization, ensure that material risks (institutional and compliance risks) affecting the Authority are identified and appropriately treated, and contribute to the overall control environment of the Authority by strengthening internal controls. The framework also includes a Risk Guidance Manual for the implementation of the risk management processes that establish the context and the identification, analysis, evaluation, treatment, communication and ongoing

monitoring of risks; and most recently, the monitoring regime for the Balanced Score Card 2016–2018.

**The ZRA carries out intelligence gathering and research to identify compliance risks; however, the use of external sources is limited.** The ZRA has incorporated measures into the Corporate Strategic Plan (CSP) and RMF to address identified weaknesses, threats, and opportunities stemming from the annual environmental analysis. The TaxOnline system analyses individual returns given the risk identified. The ZRA has conducted studies into particular tax obligations, tax types, taxpayer segments, hidden economic activity, and tax gap analysis in the following areas: analysis of VAT gap, small and medium firm taxation, PIT for diplomatic missions, presumptive tax regime, property taxation, capital gains tax, and mining rights. Other studies cited and viewed by the assessment team cover the mineral value chain, construction taxation, and carbon taxation. However, the ZRA does not use random audit programs to test compliance levels; and it has not conducted studies on aggressive tax planning of high-net-worth individuals or international taxation related issues, such as transfer pricing and profit shifting. It occasionally uses third party information. It also lacks memorandums of understanding with other agencies for sharing information.

**Although not a single document, the ZRA’s RMF includes almost all international standards to assess, rank, and quantify taxpayer compliance risks.** The Design and Monitoring Department (DMD) develops the tax audit and taxpayer services compliance strategies based on risk compliance analysis for all core taxes, four main compliance obligations, and key taxpayer segments. The DMD also undertakes the role of setting the risk parameters in the TaxOnline system to generate a list of audit cases with system-assigned score, ranking and priority. However, the RMF lacks documented estimates of tax revenue leakage due to noncompliance in respect of specific areas including, for example: unregistered businesses, tax evasion from unreported income and over-claimed deductions, tax avoidance through aggressive tax planning, refunds, and other tax fraud.

#### **P2-4: Mitigation of risks through a compliance improvement plan**

This indicator examines the extent to which the tax administration has formulated a compliance improvement plan to address identified risks. The assessed score is shown in Table 5 followed by an explanation of reasons underlying the assessment.

**Table 5. P2-4 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P2-4. The degree to which the tax administration mitigates assessed risks to the tax system through a compliance improvement plan.	<b>M1</b>	<b>C</b>

**The ZRA does not have a formal compliance improvement plan (CIP); however, its RMF is considered a fragmented approach to a CIP.** In addition to the elements mentioned in P2-3, the RMF has a risk register—that does not cover all risks—and includes mitigation activities in respect to identified risks in the tax system, such as low tax knowledge, poor compliance culture affecting returns filing and tax payments, unregistered businesses, and transfer pricing schemes. The RMF covers only a single year, is fully resourced, and its mitigation activities progress is monitored monthly in senior management meetings. In this regard, the rating of a ‘C’ instead of a ‘D’ is given to recognize the structure in place designed to improve tax compliance culture, although it does not have a formal CIP.

#### **P2-5: Monitoring and evaluation of compliance risk mitigation activities**

This indicator looks at the process used to monitor and evaluate mitigation activities. The assessed score is shown in Table 6 followed by an explanation of reasons underlying the assessment.

**Table 6. P2-5 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P2-5. The process used to monitor and evaluate the impact of compliance risk mitigation activities.	<b>M1</b>	<b>C</b>

**The impact of risk mitigation activities on taxpayer compliance is regularly monitored by the ZRA, but is only occasionally evaluated and documented.** There is no risk management committee, however, the Research and Planning Department (RPD), through the Corporate Planning and Balanced Score Card units, is in charge of compliance risk management control and prepares reports that are reviewed monthly by the ZRA senior management members. The ZRA routinely alerts the Ministry of Finance of weaknesses in the law that have exposed the tax system to high levels of risk.

#### **P2-6: Identification, assessment, and mitigation of institutional risks**

This indicator examines how the tax administration manages institutional risks. The assessed score is shown in Table 7 followed by an explanation of reasons underlying the assessment.

**Table 7. P2-6 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P2-6. The process used to identify, assess, and mitigate institutional risks.	<b>M1</b>	<b>A</b>

**The ZRA has in place a comprehensive structured process to identify, assess, prioritize, and mitigate institutional risks.** Based on the RMF, the ZRA addresses institutional risks as part of its planning process; maintains an institutional risk register; has an annually updated business continuity plan; monitors progress and evaluates the impact of mitigation activities at senior management levels; and conducts disaster simulation exercises.

### **C. POA 3: Supporting Voluntary Compliance**

To promote voluntary compliance and public confidence in the tax system, tax administrations must adopt a service-oriented attitude toward taxpayers, ensuring that taxpayers have the information and support they need to meet their obligations and claim their entitlements under the law. Because few taxpayers use the law itself as a primary source of information, assistance from the tax administration plays a crucial role in bridging the knowledge gap. Taxpayers expect that the tax administration will provide summarized, understandable information on which they can rely.

Efforts to reduce taxpayer costs of compliance are also important. Small businesses, for example, gain from simplified record keeping and reporting requirements. Likewise, individuals with relatively simple tax obligations (e.g., employees, retirees, and passive investors) benefit from simplified filing arrangements and systems that eliminate the need to file.

Three performance indicators are used to assess POA 3:

- P3-7—Scope, currency, and accessibility of information.
- P3-8—Scope of initiatives to reduce taxpayer compliance costs.
- P3-9—Obtaining taxpayer feedback on products and services.

#### **P3-7: Scope, currency, and accessibility of information**

For this indicator four measurement dimensions assess (1) whether taxpayers have the information they need to meet their obligations; (2) whether the information available to taxpayers reflects the current law and administrative policy; (3) how easy it is for taxpayers to obtain information; and (4) how quickly the tax administration responds to requests by taxpayers and tax intermediaries for information (for this dimension, waiting time for



telephone enquiry calls is used as a proxy for measuring a tax administration's performance in responding to information requests generally). Assessed scores are shown in Table 8 followed by an explanation of reasons underlying the assessment.

**Table 8. P3-7 Assessment**

Measurement Dimensions	Scoring Method	Score 2016	
P3-7-1. The range of information available to taxpayers to explain, in clear terms, what their obligations and entitlements are in respect of each core tax.	<b>M1</b>	<b>A</b>	<b>C</b>
P3-7-2. The degree to which information is current in terms of the law and administrative policy.		<b>C</b>	
P3-7-3. The ease by which taxpayers obtain information from the tax administration.		<b>C</b>	
P3-7-4. The time taken to respond to taxpayer and intermediary requests for information.		<b>A</b>	

**A wide range of tax information including the law, tax forms, and frequently asked questions is available in various media and ZRA's website.** ZRA provides all taxpayers with information on their obligations, that is, registration, filing, payment and accurate reporting of information in declarations. Taxpayer entitlements under tax laws and procedures exist, and are tailored to the taxpayers' specific needs. Information is available for all segments (small taxpayers, medium taxpayers and large taxpayers). There is specialized information for industry groups, e.g., the mining industry. Some of the available material is translated into local languages. The wide range of information products in place includes: television commercials, advertisements in printed media, billboards, leaflets and information on the website including FAQ's. Taxpayer outreach programs are also carried out on a regular basis—the activities are planned and reported upon. There are also specific events focused on tax intermediaries.

**Information that assists taxpayers to meet their obligations is mostly current in terms of the law, processes and procedures;** although practices on the ground vary from the required processes. There is a dedicated technical staff responsible for updating information products and raising taxpayer awareness of changes to the law or administrative procedures. The TSU's Operating Manual provides for updating the information on the website. There is a taxpayer services compliance strategy deriving from the "multiyear corporate strategic plan." However, there is no documented instruction that mentions when (future) changes in law or procedures should be communicated. The ZRA shares the budget speech with the public through their website in a timely manner but other topics are communicated on an ad hoc basis.

**Taxpayers can obtain information easily and quickly through various delivery channels.**

There are various service delivery channels such as walk-in service centers, a call center, a well-functioning website and mobile tax offices. There are tax offices throughout the country. There are planned taxpayer education events for (new) small business owners, individuals, and for large companies. The ZRA attends events such as the annual meetings of chartered professionals. Although planned for the near future, the ZRA at this moment is not allowed by law to issue public or private rulings. Research on the cost of compliance is done on a regular basis. Getting information online or onsite is free. ZRA staff also help walk-in taxpayers to file and shows them how to use e-filing facilities. However, calls to the call center are subject to (normal) call charges. According to the Taxpayers Perception Survey more taxpayers would make use of the call center if it were toll-free. The offices and the call center are open during normal business hours. The website is available 24 hours a day, seven days a week although sometimes it cannot be reached due to limited internet availability in Zambia. Website outages are monitored by the ZRA.

**ZRA responds to taxpayer requests for information quickly.** Although an expected response time is not mentioned in the Taxpayer Charter, the ZRA handles over 81.1 percent of the telephone enquiries within international good standards of 6 minutes (Attachment III, Table 3). The waiting time for telephone enquiry calls is used as a proxy for measuring ZRA's performance in responding to information requests generally. A field visit to ZRA's customer contact center showed that the waiting time for taxpayers with walk-in enquiries is also short. Management monitors waiting times and performance is reported in the quarterly Taxpayer Charter Monitoring report.

**P3-8: Scope of initiatives to reduce taxpayer compliance costs**

This indicator examines the tax administration's efforts to reduce taxpayer compliance costs. Assessed scores are shown in Table 9 followed by an explanation of reasons underlying the assessment.

**Table 9. P3-8 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P3-8. The extent of initiatives to reduce taxpayer compliance costs.	<b>M1</b>	<b>B</b>

**ZRA has a number of initiatives to reduce taxpayer compliance costs although pre-filled tax declarations are not available.** There are simplified record-keeping requirements and tax declaration forms for smaller taxpayers. An example of this is the Turnover Tax for taxpayers with an annual turnover of less than Kwacha 800,000. Another example is the

presumptive tax for small business in the bus and taxi industry. Information on these simplified procedures and the necessary forms can be found on ZRA's website. Pre-filled tax declarations using information gathered from third parties are not available. There are FAQs on the website. The field-visit to the call center showed that FAQs are collected and ranked. There are no documents indicating that FAQs are monitored and analyzed on a regular basis.

**The TaxOnline system is available via the website for taxpayers and their agents.**

TaxOnline provides an extensive overview of the taxpayer's account and the website has a multi-layered protection system. The passwords for taxpayers are tested for strength and there is an effective system for security control. However, penetration tests have not been conducted thus far. ZRA is also undertaking a project to allow taxpayers to make e-payments to the ZRA using their mobile phones. It is expected that this procedure will be in place by the end 2016. Additionally, tax forms are reviewed on an ad hoc basis to ensure they only ask for information that is used and needed.

**P3-9: Obtaining taxpayer feedback on products and services**

For this indicator, two measurement dimensions assess (1) the extent to which the tax administration seeks taxpayer and other stakeholder views of service delivery; and (2) the degree to which taxpayer feedback is taken into account in the design of administrative processes and products. Assessed scores are shown in Table 10 followed by an explanation of reasons underlying the assessment.

**Table 10. P3-9 Assessment**

Measurement Dimensions	Scoring Method	Score 2016	
P3-9-1. The use and frequency of methods to obtain performance feedback from taxpayers on the standard of services provided.	M1	A	B
P3-9-2. The extent to which taxpayer input is taken into account in the design of administrative processes and products.		B	

**ZRA obtains feedback on the standard of services on a regular basis.** If a taxpayer visits the customer contact center in Lusaka, at the end of the meeting he or she is asked to fill out a Customer Service Monitoring Form. Focused meetings are also held with stakeholders where feedback is collected. On the website, it is possible to provide feedback to the ZRA or directly to its Integrity Committee. Every two years the ZRA commissions a taxpayer perception survey. An external consultant with an academic background carried out the 2013 and 2015 surveys. The information is gathered from taxpayers in all segments, from across the country. The survey uses a statistically valid sample of taxpayers. The 2015 survey

provides a comparison between the 2013 and 2015 outcomes and addresses all core services and products of the ZRA.

**ZRA takes taxpayer input into account in the design of administrative processes and products.** In the “project management government framework manual,” it is noted that stakeholder communication is relevant. Taxpayer input, on a case-by-case basis, is used in designing, testing and improving processes and products. Even though, there is no systematic ZRA-wide system to regularly obtain taxpayer input when designing new processes or forms, feedback is a part of engagement meetings and was, for example, taken into account when designing the TaxOnline system.

#### **D. POA 4: Timely Filing of Tax Declarations**

Filing of tax declarations (also known as tax returns) remains a principal means by which a taxpayer’s tax liability is established and becomes due and payable. As noted in POA 3, however, there is a trend toward streamlining preparation and filing of declarations of taxpayers with relatively uncomplicated tax affairs (e.g., through prefilling tax declarations). Moreover, several countries treat income tax withheld at source as a final tax, thereby eliminating the need for large numbers of PIT taxpayers to file annual income tax declarations. There is also a strong trend towards electronic filing of declarations for all core taxes. Declarations may be filed by taxpayers themselves or via tax intermediaries.

It is important that all taxpayers who are required to file do so, including those who are unable to pay the tax owing at the time a declaration is due (for these taxpayers, the first priority of the tax administration is to obtain a declaration from the taxpayer to confirm the amount owed, and then secure payment through the enforcement and other measures covered in POA 5).

The following performance indicators are used to assess POA 4:

- P4-10—On-time filing rate.
- P4-11—Use of electronic filing facilities.

##### **P4-10: On-time filing rate**

A single performance indicator, with four measurement dimensions, is used to assess the on-time filing rate for CIT, PIT, VAT, and PAYE withholding declarations. A high on-time filing rate is indicative of effective compliance management including, for example, provision of convenient means to file declarations (especially electronic filing facilities), simplified declarations forms, and enforcement action against those who fail to file on time. Assessed scores are shown in Table 11 followed by an explanation of reasons underlying the assessment.

**Table 11. P4-10 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P4-10-1. The number of CIT declarations filed by the statutory due date as a percentage of the number of declarations expected from registered CIT taxpayers.	<b>M2</b>	<b>D</b>
P4-10-2. The number of PIT declarations filed by the statutory due date as a percentage of the number of declarations expected from registered PIT taxpayers.		<b>D</b>
P4-10-3. The number of VAT declarations filed by the statutory due date as a percentage of the number of declarations expected from registered VAT taxpayers.		<b>D</b>
P4-10-4. The number of PAYE withholding declarations filed by employers by the statutory due date as a percentage of the number of PAYE declarations expected from registered employers.		<b>D</b>

**The Returns and Payments units in LTO and SMTTO offices in Domestic Taxes Division are responsible for filing enforcement.** The statutory filing requirements are set out in the Income Tax and VAT Acts. For CIT, PIT and PAYE these are in Section 46 (3) and for VAT these are in Section 16. Penalties are applied where the taxpayer does not meet the due dates.

**On-time filing rates are low.** As shown in Tables 4 to 8 in Attachment III, on-time filing rates are low across all core taxes with PIT registering the lowest on-time rate of 15 percent. The CIT on-time filing rate is 24 percent, PAYE 28 percent and VAT 45 percent.

#### **P4-11: Use of electronic filing facilities**

This indicator measures the extent to which declarations, for all core taxes, are filed electronically. Assessed scores are shown in Table 12 followed by an explanation of reasons underlying the assessment.

**Table 12. P4-11 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P4-11. The extent to which tax declarations are filed electronically.	<b>M1</b>	<b>B</b>

**ZRA facilitates and encourages filing of electronic declarations.** The Income Tax Act Section 46 (3) provides the due dates for manual and electronic filing. The manual returns are expected by June 5 while electronic returns are expected by June 30 thus encouraging e-filing. The Gazette notice number 323 of 2015 provides for electronic filing of all PAYE returns. Further, ZRA has internet bureaus located in their offices to aid taxpayers file return electronically. The Law does not explicitly require large taxpayers to file tax declarations electronically but returns with more than 10 transactions must be filed electronically as stated by the VAT Act Section 16 (2a). According to Filing Method Report for 2014 and 2015, at least 90 percent of the large taxpayers file their tax declarations electronically and overall at least 70 percent of all tax declarations filed for the core taxes are filed electronically as shown in Attachment III, Table 9 and thus the score of ‘B.’

### **E. POA 5: Timely Payment of Taxes**

Taxpayers are expected to pay taxes on time. Tax laws and administrative procedures specify payment requirements, including deadlines (due dates) for payment, who is required to pay, and payment methods. Depending on the system in place, payments due will be either self-assessed or administratively assessed. Failure by a taxpayer to pay on time results in imposition of interest and penalties and, for some taxpayers, legal debt recovery action. The aim of the tax administration should be to achieve high rates of voluntary on-time payment and low incidence of tax arrears.

Four performance indicators are used to assess POA 5:

- P5-12—Use of electronic payment methods.
- P5-13—Use of efficient collection systems.
- P5-14—Timeliness of payments.
- P5-15—Stock and flow of tax arrears.

#### **P5-12: Use of electronic payment methods**

This indicator examines the degree to which core taxes are paid by electronic means, including through electronic funds transfer (where money is electronically transferred via the Internet from a taxpayer’s bank account to the government’s account), credit cards, and debit cards. For TADAT measurement purposes, payments made in person by a taxpayer to a third party agent (e.g., a bank or post office) that are then electronically transferred by the agent to the government’s account are accepted as electronic payments. Assessed scores are shown in Table 13 followed by an explanation of reasons underlying the assessment.

**Table 13. P5-12 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P5-12. The extent to which core taxes are paid electronically.	<b>M1</b>	<b>C</b>

**Electronic payments platforms are available for all core taxes under the TaxOnline system.** Taxpayers can make payments through the ZRA website, which creates a payment number and links directly to the taxpayer's online bank account. Other modes of electronic payments include the Zambia Inter Bank Payment and Settlement System, Real Time Gross Settlement (ZIPSS/RTGS) and payments made through a third party (cash offices and banks).

**On average 89 percent of CIT, VAT and PAYE payments are made electronically and only 1.3 percent of PIT payments are made electronically (see Attachment III, Table 9.)** The presumptive taxpayers account for the low electronic payments reported in PIT. However, there are plans by ZRA to introduce mobile phone payments which will make it easier for the small taxpayers to pay electronically.

#### **P5-13: Use of efficient collection systems**

This indicator assesses the extent to which acknowledged efficient collection systems—especially withholding at source and advance payment systems—are used. Assessed scores are shown in Table 14 followed by an explanation of reasons underlying the assessment.

**Table 14. P5-13 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P5-13. The extent to which withholding at source and advance payment systems are used.	<b>M1</b>	<b>A</b>

**Withholding at source is available for all employment income, dividends and interest according to Sections 71(1), 81 and 82 of the Income Tax Act.** Sections 81(1) and 82A(1b) provide for mandatory reporting of dividend and interest income. Advance payment arrangements are spelled out in Sections 77(1A) paragraph (a) and 81C of the Income Tax Act. This qualifies the ZRA for an 'A' rating.

### P5-14: Timeliness of payments

This indicator assesses the extent to which payments are made on time (by number and by value). For TADAT measurement purposes, VAT payment performance is used as a proxy for on-time payment performance of core taxes generally. A high on-time payment percentage is indicative of sound compliance management including, for example, provision of convenient payment methods and effective follow-up of overdue amounts. Assessed scores are shown in Table 15 followed by an explanation of reasons underlying the assessment.

**Table 15. P5-14 Assessment**

Measurement Dimensions	Scoring Method	Score 2016	
P5-14-1. The number of VAT payments made by the statutory due date in percent of the total number of payments due.	M1	B	B
P5-14-2. The value of VAT payments made by the statutory due date in percent of the total value of VAT payments due.		B	

**A significant percentage of VAT is paid on time.** Approximately 82 percent of the value of total VAT payments due is paid on time,<sup>11</sup> and approximately 89 percent of the number of VAT payments are received on time (2015 figures)—Attachment III Table 10. This may not be the case for all core taxes, but VAT is the most significant source of revenue, and the timely payment has an impact on revenue performance. However, it should be noted that these figures only consider taxpayers who actually filed a return; on-time payment rates among all taxpayers would be lower due to the low rates of on-time filing.

### P5-15: Stock and flow of tax arrears

This indicator examines the extent of accumulated tax arrears. Two measurement dimensions are used to gauge the size of the administration's tax arrears inventory: (1) the ratio of end-year tax arrears to the denominator of annual tax collections; and (2) the more refined ratio of end-year 'collectible tax arrears' to annual collections.<sup>12</sup> A third measurement dimension

<sup>11</sup> Under the VAT Act Cap 331 sections 16(2A) and 19(1) provide for the statutory VAT payment date as 21st of every month

<sup>12</sup> For purposes of this ratio, "collectible" tax arrears is defined as total domestic tax arrears excluding: (a) amounts formally disputed by the taxpayer and for which collection action has been suspended pending the outcome, (b) amounts that are not legally recoverable (e.g., debt foregone through bankruptcy), and (c) arrears otherwise uncollectible (e.g., the debtor has no funds or other assets).



looks at the extent of unpaid tax liabilities that are more than a year overdue (a high percentage may indicate poor debt collection practices and performance given that the rate of recovery of tax arrears tends to decline as arrears get older.). Assessed scores are shown in Table 16 followed by an explanation of reasons underlying the assessment.

**Table 16. P5-15 Assessment**

Measurement Dimensions	Scoring Method	Score 2016	
P5-15-1. The value of total core tax arrears at fiscal year-end as a percentage of total core tax revenue collections for the fiscal year.	M2	D	D+
P5-15-2. The value of collectible core tax arrears at fiscal year-end as a percentage of total core tax revenue collections for the fiscal year.		D	
P5-15-3. The value of core tax arrears more than 12 months' old as a percentage of the value of all core tax arrears.		C	

**The Debt Recovery Unit (DRU) in the Treasury department (Finance Division) is responsible for collection enforcement.** This unit became operational on April 1, 2015 and has 10 staff reporting to the Assistant Director Debt Recovery.

**The value of tax arrears is high.** On average, the end-year stock of arrears was equivalent to 88.3 percent of annual total core tax collected during the 3-year period 2013–2015 (Attachment III, Table 11). This denotes inadequate performance.

**The value of collectible core tax arrears is high.** On average, the end-year stock of collectible core tax arrears was equivalent to 88 percent of annual total core tax collected during the 3-year period 2013–2015 (Attachment III, Table 11). This denotes inadequate performance.

**Most arrears are old.** Arrears data in Attachment III, Table 11 indicate that over 70 percent of arrears were more than 12 months old illustrating weak performance.

**Information provided during the post-in-country phase comments indicated that 60 percent of debt was penalties and interest a result of compliance runs.** This additional information of the composition of debt does not affect the score. The available data in Attachment III still suffices to give the score of 'D+'.

#### **F. POA 6: Accurate Reporting in Declarations**

Tax systems rely heavily on complete and accurate reporting of information by taxpayers in tax declarations. Tax administrations therefore need to regularly monitor tax revenue losses

from inaccurate reporting, especially by business taxpayers, and take a range of actions to ensure compliance. These actions fall into two broad groups: verification activities (e.g., tax audits, investigations, and income matching against third party information sources) and proactive initiatives (e.g., taxpayer assistance and education as covered in POA 3, and cooperative compliance approaches).

If well designed and managed, tax audit programs can have far wider impact than simply raising additional revenue from discrepancies detected by tax audits. Detecting and penalizing serious offenders serve to remind all taxpayers of the consequences of inaccurate reporting.

Also prominent in modern tax administration is high-volume automated crosschecking of amounts reported in tax declarations with third party information. Because of the high cost and relative low coverage rates associated with traditional audit methods, tax administrations are increasingly using technology to screen large numbers of taxpayer records to detect discrepancies and encourage correct reporting.

Proactive initiatives also play an important role in addressing risks of inaccurate reporting. These include adoption of cooperative compliance approaches to build collaborative and trust-based relationships with taxpayers (especially large taxpayers) and intermediaries to resolve tax issues and bring certainty to companies' tax positions in advance of a tax declaration being filed, or before a transaction is actually entered into. A system of binding tax rulings can play an important role here.

Finally, on the issue of monitoring the extent of inaccurate reporting across the taxpayer population generally, a variety of approaches are being used, including: use of tax compliance gap estimating models, both for direct and indirect taxes; advanced analytics using large data sets (e.g., predictive models, clustering techniques, and scoring models) to determine the likelihood of taxpayers making full and accurate disclosures of income; and surveys to monitor taxpayer attitudes towards accurate reporting of income.

Against this background, three performance indicators are used to assess POA 6:

P6-16—Scope of verification actions taken to detect and deter inaccurate reporting.

P6-17—Extent of proactive initiatives to encourage accurate reporting.

P6-18—Monitoring the extent of inaccurate reporting.

#### **P6-16: Scope of verification actions taken to detect and deter inaccurate reporting.**

For this indicator, two measurement dimensions provide an indication of the nature and scope of the tax administration's verification program. Assessed scores are shown in Table 17 followed by an explanation of reasons underlying the assessment.

**Table 17. P6-16 Assessment**

Measurement Dimensions	Scoring Method	Score 2016	
P6-16-1. The nature and scope of the tax audit program in place to detect and deter inaccurate reporting.	M2	B	C
P6-16-2. The extent of large-scale automated crosschecking to verify information in tax declarations.		D	

**ZRA has an audit program that addresses key elements, and selects audit cases centrally; however, it does not analyze or evaluate the impact of audits on levels of taxpayer compliance.** Taxpayer segments underlay ZRA's compliance functions; and according to the 2016 Audit Tax Strategy there are approximately 105 auditors. Senior leaders monitor performance through monthly monitoring reports, and the use of the automated centralized case management system—TaxOnline.

**The LTO and SMTO departments prepare separate audit plans;** and the Director of Design and Monitoring (DMD), who also reports to the Commissioner DTD, prepares the (consolidated) Domestic Tax Audit Strategy (Audit Plan). The 2016 Audit Strategy is dated February 2016, after the beginning of the fiscal year. It covers all core taxes, key taxpayer segments, and is weighted towards large taxpayers. High-risk segments and economic sectors are mentioned in the plans; however, specific targets are not set. Cases are selected for audit by DMD, which is independent of Audit. Case selections are made primarily on the basis of assessed risk, but also allow for randomly selected audits; which must also be approved by DMD. ZRA uses a range of audit types. Management enforces provisions of the Audit Manual emphasizing direct and indirect methods during the planning stage. Although ZRA compiles closed case audit results, it does not analyze or evaluate the impact of audits on levels of taxpayer compliance.

**There has been no large-scale automated crosschecking of information.** ZRA has not conducted any large-scale automated crosschecking of amounts reported in PIT and CIT declarations with other private or government agency information.

#### **P6-17: Extent of proactive initiatives to encourage accurate reporting**

This indicator assesses the nature and scope of cooperative compliance and other proactive initiatives undertaken to encourage accurate reporting. Assessed scores are shown in Table 18 followed by an explanation of reasons underlying the assessment.

**Table 18. P6-17 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P6-17. The nature and scope of proactive initiatives undertaken to encourage accurate reporting.	<b>M1</b>	<b>D</b>

**ZRA does not have a system of public or private binding rulings, or cooperative compliance arrangements.** However, the assessment team notes that ZRA provided documentation that a “Draft Tax Administration Bill” is being submitted for consideration in pending legislation; which if approved will give ZRA the authority to issue binding public and private rulings. Also, the ZRA (in their post-in-country phase comments) has mentioned that they have commenced the piloting of cooperative compliance with the Assistance of the Austria University and the telecommunications sector has been identified for the piloting of the program.

#### **P6-18: Monitoring the extent of inaccurate reporting**

This indicator examines the soundness of methods used by the tax administration to monitor the extent of inaccurate reporting in declarations. The assessed score is shown in Table 19 followed by an explanation of reasons underlying the assessment.

**Table 19. P6-18 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P6-18. The soundness of the method/s used by the tax administration to monitor the extent of inaccurate reporting.	<b>M1</b>	<b>C</b>

**ZRA’s monitoring of the extent of inaccurate reporting using a method that satisfies international good standards has been limited to VAT gap analyses; which have not been made public.** Independent VAT gap analysis reports were issued in 2012 and 2015. ZRA collaborated with the London School of Economics to estimate the VAT gap in Zambia. The independent reports, dated November 29, 2012 and August 12, 2015, concluded that the VAT gap in Zambia is “not large”; and in the 2015 report it was stated that the gap was narrowing; partly due to increased imports and exports, and partly (as implied) due to ZRA compliance interventions. No other core taxes have been studied.

### G. POA 7: Effective Tax Dispute Resolution

This POA deals with the process by which a taxpayer seeks an independent review, on grounds of facts or interpretation of the law, of a tax assessment resulting from an audit. Above all, a tax dispute process must safeguard a taxpayer's right to challenge a tax assessment and get a fair hearing. The process should be based on a legal framework, be known and understood by taxpayers, be easily accessible, guarantee transparent independent decision-making, and resolve disputed matters in a timely manner.

Three performance indicators are used to assess POA 7:

- P7-19—Existence of an independent, workable, and graduated dispute resolution process.
- P7-20—Time taken to resolve disputes.
- P7-21—Degree to which dispute outcomes are acted upon.

#### P7-19: Existence of an independent, workable, and graduated resolution process

For this indicator three measurement dimensions assess (1) the extent to which a dispute may be escalated to an independent external tribunal or court where a taxpayer is dissatisfied with the result of the tax administration's review process; (2) the extent to which the tax administration's review process is truly independent; and (3) the extent to which taxpayers are informed of their rights and avenues of review. Assessed scores are shown in Table 20 followed by an explanation of reasons underlying the assessment.

**Table 20. P7-19 Assessment**

Measurement Dimensions	Scoring Method	Score 2016	
P7-19-1. The extent to which an appropriately graduated mechanism of administrative and judicial review is available to, and used by, taxpayers.	M2	B	B
P7-19-2. Whether the administrative review mechanism is independent of the audit process.		D	
P7-19-3. Whether information on the dispute process is published, and whether taxpayers are explicitly made aware of it.		A	

**A tiered review mechanism is in place and is used.** There is a graduated mechanism of administrative and judicial reviews; and it consists of a review process within the tax administration, a Tax Appeals Tribunal and the Supreme Court. However, the administrative review process within the tax administration is multi-layered. An objection to a raised tax assessment is usually addressed to the station manager but in cases where the taxpayers are

not satisfied with the outcome, they can appeal to the Director and further on to the Commissioner DTD and to the Commissioner General.

**The administrative review process is not independent of the audit process.** The Objections Review Committee, which is appointed by the station manager in the Small and Medium Taxpayers Office (SMT0), is tasked to review the case. In the LTO, the team to review the case is set up in consideration of the expertise needed to handle a given case. In both offices, the case officer that performed the audit cannot be part of the Objections Review Committee as stipulated in the ZRA Domestic Taxes Division Objections and Appeals Manual. However, in some provincial stations the case auditor is part of the team reviewing the objection when it arises. An Appeals office has been set up and will be reporting directly to the Commissioner General but it is not yet operational.

**Information on the dispute resolution process is publicly available and taxpayers are explicitly made aware of it.** The tax administration provides information on taxpayers' dispute rights and the dispute process: (i) on the notice of assessment; (ii) in the Taxpayer Charter on the ZRA website; and (iii) on the Tax Appeals Tribunal website. During the exit meeting, as part of the audit process, auditors inform taxpayers of their right to dispute the assessed amount and procedure used.

#### P7-20: Time taken to resolve disputes

This indicator assesses how responsive the tax administration is in completing administrative reviews. Assessed scores are shown in Table 21 followed by an explanation of reasons underlying the assessment.

**Table 21. P7-20 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P7-20. The time taken to complete administrative reviews.	<b>M1</b>	<b>C</b>

**No service delivery standards exist for time taken to complete administrative reviews (objections or appeals handled at ZRA level).** The current practice is that the cases are concluded within 90 days but there is no binding timeframe within which an administrative review must be completed. Neither the laws nor the ZRA DTD Objections and Appeals Manual nor the Taxpayer Charter stipulate a timeframe for handling objections and appeals. The data provided (Attachment III, Table 12) on finalization of administrative reviews shows that 88.6 percent of the cases were completed in 60 days. Follow-up conversation with ZRA confirmed that all cases were completed within 90 days.

### P7-21: Degree to which dispute outcomes are acted upon

This indicator looks at the extent to which dispute outcomes are taken into account in determining policy, legislation, and administrative procedure. The assessed score is shown in Table 22 followed by an explanation of reasons underlying the assessment.

**Table 22. P7-21 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P7-21. The extent to which the tax administration responds to dispute outcomes.	<b>M1</b>	<b>B</b>

**The ZRA analyzes dispute outcomes of a material nature and initiates administrative and legislative changes as necessary.** There was evidence of three cases where the dispute outcomes—two cases at the Supreme Court level and one administrative review—triggered changes in the VAT and the Income Tax Acts in recent periods (2014 and 2015). Changes to the law in these circumstances are usually executed through the annual budgetary process. There is however, no regular monitoring and analysis of dispute outcomes.

### H. POA 8: Efficient Revenue Management

This POA focuses on three key activities performed by tax administrations in relation to revenue management:

- Providing input to government budgeting processes of tax revenue forecasting and tax revenue estimating. (As a general rule, primary responsibility for advising government on tax revenue forecasts and estimates rests with the Ministry of Finance. The tax administration provides data and analytical input to the forecasting and estimating processes. Ministries of Finance often set operational revenue collection targets for the tax administration based on forecasts of revenue for different taxes.)<sup>13</sup>
- Maintaining a system of revenue accounts.
- Paying tax refunds.

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<sup>13</sup> It is common for Ministries of Finance to review budget revenue forecasts and related tax collection targets during the fiscal year (particularly mid-year) to take account of changes in forecasting assumptions, especially changes in the macroeconomic environment.

Three performance indicators are used to assess POA 8:

- P8-22—Contribution to government tax revenue forecasting process.
- P8-23—Adequacy of the tax revenue accounting system.
- P8-24—Adequacy of tax refund processing.

#### P8-22: Contribution to government tax revenue forecasting process

This indicator assesses the extent of tax administration input to government tax revenue forecasting and estimating. The assessed score is shown in Table 23 followed by an explanation of reasons underlying the assessment.

**Table 23. P8-22 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P8-22. The extent of tax administration input to government tax revenue forecasting and estimating.	<b>M1</b>	<b>B</b>

**ZRA has strong analytic capability in reviewing and forecasting revenue collections.**

The Research and Policy Unit within the RPD is responsible for compiling and analyzing revenue collection figures, and for assisting Ministry of Finance in preparing revenue forecasts. This unit consists of five members of staff, including economists and a statistician. Revenue forecasts are developed in conjunction with MoF through annual budget policy committees.

**ZRA has strong reporting mechanisms on collection and actively participates in revenue forecasting.** Data on revenue collections are collated daily and circulated to senior management and other staff members. Revenue expectations are discussed at weekly senior management meetings. The RPD provides analysis of performance against forecasts to senior management on a monthly basis, and to Ministry of Finance quarterly. These reports also include analysis of prevailing economic conditions. Members of the unit sit on the national Budget Planning Committee and assist in the development of revenue forecasts.

**ZRA does not make explicit forecasts of VAT refund levels.** However, forecasts are made for net VAT receipts, implicitly accounting for refunds, and calculated by estimating gross receipts and refunds. This provides MoF with the information needed to manage the ring-fencing of refund funding and this method meets international good standards.

**The Authority does not routinely monitor tax expenditures and tax losses carried forward.** Estimates of tax expenditures have been made for CIT, VAT, and customs, but



these are ad hoc and are not currently monitored regularly. Re-estimates are sometimes made in developing proposals for the annual budget, on an ad hoc basis. The stock of tax losses carried forward is not monitored in aggregate, although the IT system does automatically manage accrued losses.

#### P8-23: Adequacy of the tax revenue accounting system

This indicator examines the adequacy of the tax revenue accounting system. Assessed scores are shown in Table 24 followed by an explanation of reasons underlying the assessment.

**Table 24. P8-23 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P8-23. Adequacy of the tax administration's revenue accounting system.	<b>M1</b>	<b>D</b>

**ZRA has a strong revenue accounting system in place, within the remit of the Treasury section of the Finance Division.** The TaxOnline system provides a full revenue accounting system, with individual taxpayer accounts which can be interrogated for a single view of a taxpayer's position. The system is visible to taxpayers through an online portal, and to ZRA staff with appropriate access rights. The identity of staff who alter taxpayer records is automatically tracked. Taxpayer records have been migrated from the previous system, although an exercise is underway to ensure that the legacy data is accurate. The suspense account within TaxOnline is controlled and officers cannot post payments to it without authorization. However, a legacy suspense account remains from the old ITAS system and its contents is under review.

**The ZRA accounting system meets government information technology (IT) and accounting standards** under the International Financial Reporting Standards, using SAP. Both the accounting and revenue accounting systems are regularly audited by Internal Audit and by the Office of the Auditor General, including accounting, compliance with tax law, and IT audits. Most payments received are posted to the taxpayer ledger within one day. The exceptions are interbank transfers using the Real Time Gross Settlements system, which take up to two days due to the need to match reports from the Bank of Zambia and commercial banks. However, there is no direct link between the ZRA's accounting systems and that of the Ministry of Finance. ZRA reported that they are willing and able to establish such a link; however, it will require support from the Ministry of Finance.

#### P8-24: Adequacy of tax refund processing

For this indicator, two measurement dimensions assess the tax administration's system of

processing VAT refund claims. Assessed scores are shown in Table 25 followed by an explanation of reasons underlying the assessment.

**Table 25. P8-24 Assessment**

Measurement Dimensions	Scoring Method	Score 2016	
P8-24-1. Adequacy of the VAT refund system.	M2	B	C
P8-24-2. The time taken to pay (or offset) VAT refunds.		D	

**ZRA has a robust VAT refund system managed automatically within TaxOnline.**

Repayment VAT returns are automatically treated as applications for refunds. Returns are subjected to a set of risk parameters and if judged to be credible, are allocated to the Returns and Payments Unit for processing. On the 18<sup>th</sup> of every month, the Commissioner for Finance and the Commissioner General write to the Ministry of Finance and the Bank of Zambia notifying them of the total level of refunds for the month. That amount is ring-fenced and deducted from ZRA's payments of revenue into central government accounts, and payment to taxpayers is made.

**The VAT refund system is risk-based and ensures that funds are available. However, a significant backlog of unprocessed claims exists.** Undisputed credit on VAT accounts is automatically offset against arrears on other taxes. Refund claims are assessed for risk automatically, against pre-set risk parameters. Cases that are judged to be non-credible are forwarded to audit units and a credibility audit is carried out. Low risk refunds are processed and paid immediately, if the correct information is available. As noted above, funds for legitimate claims are ring-fenced on a monthly basis. Some level of preferential treatment is reported to be provided to lower risk taxpayers, since special provisions are in place for mining companies. Extra information is required from the taxpayers but officers ensure that processing of refunds is streamlined. However, although the law and ZRA Taxpayer Charter impose a thirty-day deadline for refunds to be processed, no interest is paid by ZRA on delayed payments.

**There are significant delays in processing refund claims and making repayments to taxpayers.** Only 11 percent of the number of cases, and 30 percent of the value, are approved or rejected within the statutory deadline of 30 days (see Attachment III, Table 11). This represents performance below international good practice within the TADAT framework. The level of performance was attributed by ZRA staff to delays in carrying out credibility audits on high-risk cases. The vast majority (92 percent) of the claims processed within 30 days were approved, suggesting that these were the repayments automatically cleared by the TaxOnline risk parameters.

## I. POA 9: Accountability and Transparency

Accountability and transparency are central pillars of good governance. Their institutionalization reflects the principle that tax administrations should be answerable for the way they use public resources and exercise authority. To enhance community confidence and trust, tax administrations should be openly accountable for their actions within a framework of responsibility to the minister, government, legislature, and the general public.

Four performance indicators are used to assess POA 9:

- P9-25—Internal assurance mechanisms.
- P9-26—External oversight of the tax administration.
- P9-27—Public perception of integrity.
- P9-28—Publication of activities, results, and plans.

### P9-25: Internal assurance mechanisms

For this indicator, two measurement dimensions assess the internal assurance mechanisms in place to protect the tax administration from loss, error, and fraud. Assessed scores are shown in Table 26 followed by an explanation of reasons underlying the assessment.

**Table 26. P9-25 Assessment**

Measurement Dimensions	Scoring Method	Score 2016	
P9-25-1. Assurance provided by internal audit.	M2	B	B+
P9-25-2. Staff integrity assurance mechanisms.		A	

**ZRA has an independent Internal Audit Unit (IAU) for which an annual Internal Audit Plan is developed; however, independent review of its processes and procedures is beyond five years.** The IAU reports to the Audit Committee of the Governing Board, and to the Commissioner General for administrative matters. The Director of IAU develops an Annual Internal Audit Plan; which is comprised of controls assurance, location audits, operational performance audits, information technology systems audits, follow-ups, and financial audits. The Plan includes coverage for key operations, revenue accounting and financial management. The IAU is comprised of the Director, two assistants, and 18 auditors. Auditors are trained regularly in audit methodologies. The IAU demonstrated that it maintains an automated repository of internal policies, processes and procedures. The Institute of Internal Auditors conducted an “External Quality Assessment of the Internal Audit Activity” during November/December 2011 and ZRA provided evidence, including

confirmation from the Chairman of the Governing Board, that it is active in its plans to commission an external assessment of the internal audit function during 2017. The IAU statistics are reported in the Annual Report, and are made public by posting to the website.

**IT system controls, including Threat Management Gateways for internal and external, are in place to detect threats to the confidentiality and integrity of ZRA data.** Audit trails are built into the system, and are actively used by the IAU, and for other authorized access. Access to taxpayer information is approved by the Design and Monitoring Department (in the DTD).

**The ZRA has an independent Internal Affairs Unit, headed by the Chief Internal Affairs Officer; and statistics are maintained and reported publicly.** Internal Affairs reports to the Commissioner General. The unit is composed of the Chief, three team leaders and 10 investigators. The Chief of Internal Affairs has (and exercises) full investigative powers. He is a member of the ZRA Integrity Committee, which is responsible for ethics policy, including the formulation of the Code of Conduct. Investigations into wrongdoing include corruption vulnerability assessments. As jurisdictions dictate, the Chief of Internal Affairs collaborates and makes referrals to the local police, the Anti-Corruption Commission, and the Drug Enforcement Commission. Annual Internal Affairs statistics on fraud and misconduct are reported in the Annual Report, which is made public through posting it to the ZRA website. The ZRA Integrity Committee also reports Internal Affairs statistics to the Governing Board on a quarterly basis.

#### **P9-26: External oversight of the tax administration**

Two measurement dimensions of this indicator assess (1) the extent of independent external oversight of the tax administration's operations and financial performance; and (2) the investigation process for suspected wrongdoing and maladministration. Assessed scores are shown in Table 27 followed by an explanation of reasons underlying the assessment.

**Table 27. P9-26 Assessment**

Measurement Dimensions	Scoring Method	Score 2016	
P9-26-1. The extent of independent external oversight of the tax administration's operations and financial performance.	<b>M2</b>	<b>A</b>	<b>C+</b>
P9-26-2. The investigation process for suspected wrongdoing and maladministration.		<b>D</b>	

**There is strong external oversight of ZRA, with an annual audit by the Office of the Auditor General, and audit of the financial statements by a private audit firm.** The

private audit firm audits ZRA's financial performance and reporting. The Office of the Auditor General examines revenue and operational performance, and internal controls. ZRA's IAU is responsible for liaising with the external auditors, and for facilitating and coordinating the audits and responses.

**The audit program ensures that ZRA's financial statements and operational performance are audited annually.** The ZRA Act (section 25) requires the authority to present audited financial statements to the Minister of Finance within six months of the end of the financial year. Opinions on the financial statements are provided by the private sector audit firm. The Auditor General's report on ZRA, along with other government institutions, is tabled with Parliament in September following the end of the financial year. The financial statements are published in ZRA's annual report, and the Auditor General's report is published on the website of his Office. In addition, the findings, and ZRA's responses, are subject to a public hearing by the Public Accounts Committee of Parliament. This is widely reported on radio and in the press. ZRA prepares responses to the Auditor General's recommendations and presents these to the Parliamentary Committee. The report of the Public Accounts Committee is published on Parliament's website, and responses to the Committee's recommendations are reported to Parliament.

**There are weaknesses in the processes for taxpayers to seek redress for alleged wrongdoing or maladministration.** An ombudsman exists, in the form of the Public Protector, and formally this agency has a remit over ZRA along with all other government institutions. The Public Protector can investigate and resolve complaints regarding maladministration or administrative injustice by any public institution or official. However, in practice the Authority was unaware of any interaction with the Public Protector (or its predecessor the Investigator General) and could not cite a case in which a complaint from a taxpayer had been investigated by that institution. The ombudsman institution has recently been reformed and this may lead to greater effectiveness with regard to complaints about ZRA.

**There is a strong national anti-corruption policy and the Anti-Corruption Commission (ACC) oversees ZRA's policies and activity in this area.** The ACC works closely with ZRA's Integrity Committee to develop policies and code of conduct and to investigate complaints of corruption against ZRA officers. The Integrity Committee prepares an Annual Corruption Prevention Action Plan. Progress against this plan is reported on a quarterly basis to senior management and from there to the Secretary to the Cabinet and the ACC, as required by the Anti-Corruption Act.

#### **P9-27: Public perception of integrity**

This indicator examines measures taken to gauge public confidence in the tax administration. The assessed score is shown in Table 28 followed by an explanation of reasons underlying the assessment.

**Table 28. P9-27 Assessment**

Measurement Dimensions	Scoring Method	Score 2016
P9-27. The mechanism for monitoring public confidence in the tax administration.	<b>M1</b>	<b>C</b>

**ZRA has a good mechanism for monitoring public confidence in the organization, although the reports are not made public.** ZRA commissions a Taxpayer Perception Survey report every two years starting in 2013. The survey uses a statistically valid sample of key taxpayer segments and is done by an independent consultant with an academic background. The 2015 report has not been published on ZRA's website, awaiting final approval. The 2013 report has not also been published for the general public. The taxpayer charter is monitored quarterly and taxpayer knowledge about the right to appeal, and perceptions of privacy and confidentiality are part of the quarterly report. Besides the survey that ZRA commissions, a two-yearly 'Zambia bribe payers index' is compiled by Transparency International Zambia and the Anti-Corruption Commission, this report was publicly disseminated at the Government Complex on April 22, 2014; however, this report does not cover all required topics of a public confidence survey.

#### **P9-28: Publication of activities, results, and plans**

Two measurement dimensions of this indicator assess the extent of (1) public reporting of financial and operational performance; and (2) publication of future directions and plans. Assessed scores are shown in Table 29 followed by an explanation of reasons underlying the assessment.

**Table 29. P9-28 Assessment**

Measurement Dimensions	Scoring Method	Score 2016	
P9-28-1. The extent to which the financial and operational performance of the tax administration is made public, and the timeliness of publication.	<b>M2</b>	<b>A</b>	<b>B</b>
P9-28-2. The extent to which the tax administration's future directions and plans are made public, and the timeliness of publication.		<b>C</b>	

**An annual report is produced outlining the financial and operational performance of the ZRA for the immediate past fiscal year.** This report is submitted to the Minister for

Finance who tables it before Parliament within 6 months of the end of the fiscal year (as stipulated in the ZRA Act) and it is made available to the public.

**A 3-year strategic plan is prepared and published in advance of the plan period.**

However, none of the operational plans (annual action plan or compliance strategies) are made public.

## Attachment I. TADAT Framework

### Performance outcome areas

TADAT assesses the performance of a country's tax administration system by reference to nine outcome areas:

1. **Integrity of the registered taxpayer base:** Registration of taxpayers and maintenance of a complete and accurate taxpayer database is fundamental to effective tax administration.
2. **Effective risk management:** Performance improves when risks to revenue and tax administration operations are identified and systematically managed.
3. **Support given to taxpayers to help them comply:** Usually, most taxpayers will meet their tax obligations if they are given the necessary information and support to enable them to comply voluntarily.
4. **On-time filing of declarations:**  
Timely filing is essential because the filing of a tax declaration is a principal means by which a taxpayer's tax liability is established and becomes due and payable.
5. **On-time payment of taxes:**  
Nonpayment and late payment of taxes can have a detrimental effect on government budgets and cash management. Collection of tax arrears is costly and time consuming.
6. **Accuracy of information reported in tax declarations:** Tax systems rely heavily on complete and accurate reporting of information in tax declarations. Audit and other verification activities and proactive initiatives of taxpayer assistance, promote accurate reporting and mitigate tax fraud.
7. **Adequacy of dispute resolution processes:** Independent accessible, and efficient review mechanisms safeguard a taxpayer's right to challenge a tax assessment and get a fair hearing in a timely manner.





8. **Efficient revenue management:** Tax revenue collections must be fully accounted for, monitored against budget expectations, and analyzed to inform government revenue forecasting. Legitimate tax refunds to individuals and businesses must be paid promptly.
9. **Accountability and transparency:** As public institutions, tax administrations are answerable for the way they use public resources and exercise authority. Community confidence and trust are enhanced when there is open accountability for administrative actions within a framework of responsibility to the minister, legislature, and general community.

### **Indicators and associated measurement dimensions**

A set of 28 high-level indicators critical to tax administration performance are linked to the performance outcome areas. It is these indicators that are scored and reported on. A total of 47 measurement dimensions are taken into account in arriving at the indicator scores. Each indicator has between one and four measurement dimensions.

Repeated assessments will provide information on the extent to which a country's tax administration is improving.

### **Scoring methodology**

The assessment of indicators follows the same approach followed in the Public Expenditure and Financial Accountability (PEFA) diagnostic tool so as to aid comparability where both tools are used.

Each of TADAT's 47 measurement dimensions is assessed separately. The overall score for an indicator is based on the assessment of the individual dimensions of the indicator. Combining the scores for dimensions into an overall score for an indicator is done using one of two methods: Method 1 (M1) or Method 2 (M2). For both M1 and M2, the four-point 'ABCD' scale is used to score each dimension and indicator.

**Method M1** is used for all single dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator).

**Method M2** is based on averaging the scores for individual dimensions of an indicator. It is used for selected multi-dimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of higher scores on other dimensions for the same indicator.

### Attachment II. Zambia: Country Snapshot

Geography	752,614 km <sup>2</sup> (290,586 sq. mi)
Population	15,473,905 (Source: CSO)
Adult literacy rate	61.4% (CIA World Factbook)
Gross Domestic Product (nominal)	US\$24.466 billion (Source: IMF)
Per capita GDP	\$4,200 (Source: CIA World Fact book)
Main industries	Mining, Agriculture; Retail Trade & Industry
Communications	<ul style="list-style-type: none"> <li>• Internet users per 100 people: 17.3</li> <li>• Mobile phone subscribers per 100 people: 67.3 (as at 2014) (Source: World Bank)</li> </ul>
Main taxes	PAYE, CIT, Mineral Royalty, VAT, Customs Duty, Excise Duty
Tax-to-GDP	In 2015, 16.3 percent for domestic taxes. (Source: ZRA)
Number of taxpayers	PIT (87,125), CIT (57,626), PAYE (23,585), VAT (13,118), Domestic Excise (110), Other taxes -
Main collection agency	Zambia Revenue Authority
Number of staff in the main collection agency	1,536 (2015)
Financial year	Calendar year

## Attachment III. Data Tables

## A. Tax Revenue Collections

<b>Table 1. Tax Revenue Collections, [insert 3 complete fiscal years, e.g., 2013-15]<sup>1</sup></b>			
	<b>[2013]</b>	<b>[2014]</b>	<b>[2015]</b>
<b>In local currency (K'Millions)</b>			
<b>National budgeted tax revenue forecast<sup>2</sup></b>	<b>22,826.00</b>	<b>27,621.50</b>	<b>29,166.80</b>
<b>Total tax revenue collections</b>	<b>23,154.80</b>	<b>27,604.20</b>	<b>29,927.80</b>
Corporate Income Tax (CIT)	2,852.30	3,487.80	2,846.40
Personal Income Tax (PIT)=PAYE	5,738.70	6,426.80	7,444.10
Value-Added Tax (VAT)—gross domestic collections	5,363.60	6,483.60	7,563.40
Value-Added Tax (VAT)—collected on imports	6,178.30	6,396.60	6,703.90
Value-Added Tax (VAT)—refunds approved and paid	(4,178.00)	(3,326.40)	(6,030.50)
Excises on domestic transactions	1,343.50	1,916.20	2,293.30
Excises—collected on imports	996.00	937.70	960.60
Social contribution collections	n/a	n/a	n/a
Other domestic taxes <sup>3</sup>	3,039.60	3,310.50	6,217.20
<b>In percent of total tax revenue collections</b>			
<b>Total tax revenue collections</b>	<b>100</b>	<b>100</b>	<b>100</b>
CIT	12.3	12.6	9.5
PIT=PAYE	24.8	23.3	24.9
Value-Added Tax (VAT)—gross domestic collections	23.2	23.5	25.3
Value-Added Tax (VAT)—collected on imports	26.7	23.2	22.4
Value-Added Tax (VAT)—refunds approved and paid	(18.04)	(12.05)	(20.15)
Excises—collected on domestic transactions	5.8	6.9	7.7
Excises—collected on imports	4.3	3.4	3.2
Social contribution collections			
Other domestic taxes	13.1	12.0	20.8
<b>In percent of GDP</b>			
<b>Total tax revenue collections</b>	<b>16</b>	<b>16.5</b>	<b>16.3</b>
CIT	2	2.1	1.5
PIT=PAYE	4	3.8	4.1
Value-Added Tax (VAT)—gross domestic collections	3.7	3.9	4.1
Value-Added Tax (VAT)—collected on imports	4.3	3.8	3.6
Value-Added Tax (VAT)—refunds approved and paid	(2.90)	(2.00)	(3.30)
Excises—collected on domestic transactions	0.9	1.1	1.2
Excises—collected on imports	0.7	0.6	0.5
Social contribution collections	0	0	0
Other domestic taxes	2.1	2	3.4
Nominal GDP in local currency (K' Millions)	144,722.40	166,954.42	183,790.41
<b>Explanatory notes:</b>			
<sup>1</sup> This table gathers data for three fiscal years (e.g., 2013–15) in respect of all domestic tax revenues collected by the tax administration at the national level, plus VAT and Excise tax collected on imports by the customs and/or other agency.			
<sup>2</sup> This forecast is normally set by the Ministry of Finance (or equivalent) with input from the tax administration and, for purposes of this table, should only cover the taxes listed in the table. The final budgeted forecast, as adjusted through any mid-year review process, should be used.			
<sup>3</sup> Other domestic taxes collected at the national level by the tax administration include, for example, property taxes, financial transaction taxes, and environment taxes.			

## B. Movements in the Taxpayer Register

Table 2. Movements in the Taxpayer Register, 2013–15 (Ref: POA 1)					
	[2013]				
	Active <sup>1</sup> [A]	Inactive (not yet deregistered) [B]	Total end-year position [A + B]	Percentage of inactive (not yet deregistered)	Deregistered during the year
Corporate income tax	40,900	19,011	59,911	31.7	2,186
<i>Of which TOT incorporated entities is –</i>	22,675	3259	25934	12.6	380
Personal income tax	67,404	30,462	97,866	31.1	2,345
<i>Of which TOT individual is –</i>	48,818	9199	58,017	15.9	128
PAYE withholding (# of employers)	20,847	17,048	37,895	45.0	36
Value Added Tax	11,215	49	11,264	0.4	15
Domestic excise tax	140	-	140	0	0
Other taxpayers	40,222	683	40,905	1.67	34
	[2014]				
Corporate income tax	49,414	19,058	68,472	27.8	2,367
<i>Of which TOT incorporated entities is –</i>	28725	3288	32013	10.3	1478
Personal income tax	77,863	30,514	108,560	28.1	2,413
<i>Of which TOT individual is –</i>	57659	9243	67085	13.8	1139
PAYE withholding (# of employers)	22,365	17,058	39,423	43.3	426
Value Added Tax	12,219	53	12,272	0.4	745
Domestic excise tax	151	-	151	0	0
Other taxpayers	45,059	694	45,565	1.5	234
	[2015]				
Corporate income tax	57,626	19,096	76,722	24.9	743
<i>Of which TOT incorporated entities is –</i>	34,145	3315	37,460	8.9	514
Personal income tax	87,125	30,558	117,683	26.0	667
<i>Of which TOT individual is –</i>	65,268	9284	74,552	12.5	376
PAYE withholding (# of employers)	23,585	17,065	40,650	42.0	94
Value Added Tax	13,118	53	13,171	0.4	44
Domestic excise tax	110	43	153	28.1	0
Other taxpayers	47,401	701	48,096	1.46	265
<b>Explanatory Note:</b>  <sup>1</sup> “Active” taxpayers means registrants from whom tax declarations (returns) are expected (i.e., “active” taxpayers exclude those who have not filed a declaration within at least the last year because the case is defunct (e.g., a business taxpayer has ceased trading or an individual is deceased), the taxpayer cannot be located, or the taxpayer is insolvent).  <sup>2</sup> CIT includes companies whose turnover is below K 800,000 and are under Turnover Tax  <sup>3</sup> PIT includes individual whose turnover is below K 800,000 and are under Turnover Tax					

### C. Telephone Enquiries

(Ref: POA3)

Table 3. Telephone Enquiry Call Waiting Time (for most recent 12-month period to December 2015)			
Month	Total number of telephone enquiry calls received	Telephone enquiry calls answered within 6 minutes' waiting time	
		Number	In percent of total calls
Jan-15	1,906	2,161	88.2
Feb-15	2,735	3,023	90.5
Mar-15	2,521	2,858	88.2
Apr-15	2,459	2,760	89.1
May-15	2,305	2,542	90.7
Jun-15	3,167	3,430	92.3
Jul-15	2,301	2,651	86.8
Aug-15	2,333	2,621	89.0
Sep-15	2,370	2,788	85.0
Oct-15	2,358	2,760	85.4
Nov-15	2,105	2,432	86.6
Dec-15	1,783	2,141	83.3
<b>12-month total*</b>	<b>28,343</b>	<b>32,167</b>	<b>88.1</b>

\*This figure includes 3,824 calls that were received at Domestic Tax offices throughout the country, the rest were received through the National Call Centre.

### D. Filing of Tax Declarations

(Ref: POA 4)

Table 4. On-time Filing of CIT Declarations for 2014			
	Number of declarations filed on-time <sup>1</sup>	Number of declarations expected to be filed <sup>2</sup>	On-time filing rate <sup>3</sup> (In percent)
All CIT taxpayers including TOT company	81,977	344,700	23.8
CIT taxpayers	4,690	18,225	25.7
Large taxpayers only	422	885	47.7

**Explanatory notes:**

<sup>1</sup> 'On-time' filing means declarations (also known as 'returns') filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

<sup>2</sup> 'Expected declarations' means the number of CIT declarations that the tax administration expected to receive from registered CIT taxpayers that were required by law to file declarations.

<sup>3</sup> The 'on-time filing rate' is the number of declarations filed by the statutory due date as a percentage of the total number of declarations expected from registered taxpayers, i.e. expressed as a ratio:

$$\frac{\text{Number of CIT declarations filed by the due date}}{\text{Number of declarations expected from registered CIT taxpayers}} \times 100$$

**Table 5. On-time Filing of PIT Declarations for 2014**

Number of declarations filed on-time <sup>1</sup>	Number of declarations expected to be filed <sup>2</sup>	On-time filing rate <sup>3</sup> (In percent)
104807	691,908	15.2

**Explanatory notes:**

<sup>1</sup> 'On-time' filing means declarations (also known as 'returns') filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

<sup>2</sup> 'Expected declarations' means the number of PIT declarations that the tax administration expected to receive from registered PIT taxpayers that were required by law to file declarations.

<sup>3</sup> The 'on-time filing rate' is the number of declarations filed by the statutory due date as a percentage of the total number of declarations expected from registered taxpayers, i.e. expressed as a ratio:

$$\frac{\text{Number of PIT declarations filed by the due date}}{\text{Number of PIT declarations expected from registered PIT taxpayers}} \times 100$$

**Table 6. On-time Filing of VAT Declarations—All taxpayers**  
(for most recent 12-month period to December 2015)

Month	Number of declarations filed on-time <sup>1</sup>	Number of declarations expected to be filed <sup>2</sup>	On-time filing rate <sup>3</sup> (In percent)
Jan-15	4,678	12,219	38.3
Feb-15	5,150	12,294	41.9
Mar-15	5,231	12,369	42.3
Apr-15	5,572	12,474	44.7
May-15	5,807	12,565	46.2
Jun-15	5,885	12,632	46.6
Jul-15	5,871	12,730	46.1
Aug-15	6,070	12,808	47.4
Sep-15	6,116	12,877	47.5
Oct-15	6,346	12,943	49.0
Nov-15	5,826	13,017	44.8
Dec-15	6,270	13,070	48.0
<b>12-month total</b>	<b>68,822</b>	<b>151,998</b>	<b>45.3</b>

**Explanatory notes:**

<sup>1</sup> 'On-time' filing means declarations filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

<sup>2</sup> 'Expected declarations' means the number of VAT declarations that the tax administration expected to receive from registered VAT taxpayers that were required by law to file declarations.

<sup>3</sup> The 'on-time filing rate' is the number of VAT declarations filed by the statutory due date as a percentage of the total number of declarations expected from registered VAT taxpayers, i.e. expressed as a ratio:

$$\frac{\text{Number of VAT declarations filed by the due date}}{\text{Number of declarations expected from registered VAT taxpayers}} \times 100$$

**Table 7. On-time Filing of VAT Declarations—Large taxpayers only**  
(12-months to December 2015)

Month	Number of declarations filed on-time <sup>1</sup>	Number of declarations expected to be filed <sup>2</sup>	On-time filing rate <sup>3</sup> (In percent)
Jan-15	322	580	55.5
Feb-15	346	581	59.6
Mar-15	358	584	61.3
Apr-15	384	587	65.4
May-15	390	592	65.9
Jun-15	388	595	65.2
Jul-15	379	598	63.4
Aug-15	369	600	61.5
Sep-15	380	602	63.1
Oct-15	408	606	67.3
Nov-15	360	612	58.8
Dec-15	410	615	66.7
<b>12-month total</b>	<b>4,494</b>	<b>7,152</b>	<b>62.8</b>

**Explanatory notes:**

<sup>1</sup> 'On-time' filing means declarations filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

<sup>2</sup> 'Expected declarations' means the number of VAT declarations that the tax administration expected to receive from large taxpayers that were required by law to file VAT declarations.

<sup>3</sup> The 'on-time filing rate' is the number of VAT declarations filed by large taxpayers by the statutory due date as a percentage of the total number of VAT declarations expected from large taxpayers, i.e. expressed as a ratio:

$$\frac{\text{Number of VAT declarations filed by the due date by large taxpayers}}{\text{Number of VAT declarations expected from large taxpayers}} \times 100$$

**Table 8. On-time Filing of PAYE Withholding Declarations (filed by employers)**  
(12-months to December 2015)

Month	Number of declarations filed on-time <sup>1</sup>	Number of declarations expected to be filed <sup>2</sup>	On-time filing rate <sup>3</sup> (In percent)
Jan-15	5,204	22,365	23.3
Feb-15	5,356	22,440	23.9
Mar-15	5,499	22,515	24.4
Apr-15	6,008	22,620	26.6
May-15	6,264	22,711	27.6
Jun-15	6,481	22,778	28.5
Jul-15	6,278	22,876	27.4
Aug-15	6,576	22,954	28.7
Sep-15	6,789	23,023	29.5
Oct-15	7,054	23,089	30.6
Nov-15	6,771	23,163	29.2
Dec-15	7,078	23,216	30.5
<b>12-month total</b>	<b>75,358</b>	<b>273,750</b>	<b>27.5</b>

**Explanatory notes:**

<sup>1</sup> 'On-time' filing means declarations filed by the statutory due date for filing (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

<sup>2</sup> 'Expected declarations' means the number of PAYE withholding declarations that the tax administration expected to receive from registered employers with PAYE withholding obligations that were required by law to file declarations.

<sup>3</sup> The 'on-time filing rate' is the number of PAYE withholding declarations filed by employers by the statutory due date as a percentage of the total number of PAYE withholding declarations expected from registered employers, i.e. expressed as a ratio:

$$\frac{\text{Number of PAYE withholding declarations filed by the due date}}{\text{Number of PAYE withholding declarations expected from registered employers}} \times 10$$



## E. Electronic Services

(Ref: POAs 4 and 5)

<b>Table 9. Use of Electronic Services, [insert 3 complete fiscal years, e.g., 2013-15]<sup>1</sup></b>			
	<b>[2013]</b>	<b>[2014]</b>	<b>[2015]</b>
	<b>Electronic filing<sup>2</sup></b> (In percent of all declarations filed for each tax type)		
CIT	47.0	38.0	88.0
PIT	2.6	20.0	70.0
VAT	44.0	95.0	99.0
PAYE withholding (declarations filed by employers)	21.0	83.0	97.0
	<b>Electronic payments<sup>3</sup></b> (In percent of total <b>number</b> of payments received for each tax type)		
CIT	0.1	1.0	1.4
PIT	0.1	0.1	0.4
VAT	16.0	16.0	18.0
PAYE withholding (remitted by employers)	13.0	15.0	19.0
	<b>Electronic payments</b> (In percent of total <b>value</b> of payments received for each tax type)		
CIT	95.0	93.0	89.0
PIT	4.0	0.3	1.3
VAT	94.0	90.0	89.0
PAYE withholding (remitted by employers)	89.0	90.0	89.0
<b>Explanatory notes:</b>			
<sup>1</sup> Data in this table will provide an indicator of the extent to which the tax administration is using modern technology to transform operations, namely in areas of filing and payment.			
<sup>2</sup> For purposes of this table, electronic filing involves facilities that enable taxpayers to complete tax declarations online and file those declarations via the Internet.			
<sup>3</sup> Methods of electronic payment include credit cards, debit cards, and electronic funds transfer (where money is electronically transferred via the Internet from a taxpayer's bank account to the Treasury account). Electronic payments may be made, for example, by mobile telephone where technology is used to turn mobile phones into an Internet terminal from which payments can be made. For TADAT measurement purposes, payments made in-person by a taxpayer to a third party agent (e.g., a bank or post office) that are then electronically transferred by the agent to the Treasury account are accepted as electronic payments.			

**F. Payments**

(Ref: POA 5)

**Table 10. VAT Payments Made During 2015**

	VAT payments made on-time <sup>1</sup>	VAT payments due <sup>2</sup>	On-time payment rate <sup>3</sup> (In percent)
<b>Number</b> of payments	48,974	55,300	88.6
<b>Value</b> of payments	6,616,391,710.00	8,055,317,241.00	82.1

**Explanatory notes:**

<sup>1</sup> 'On-time' payment means paid on or before the statutory due date for payment (plus any 'days of grace' applied by the tax administration as a matter of administrative policy).

<sup>2</sup> 'Payments due' include all payments due, whether self-assessed or administratively assessed (including as a result of an audit).

<sup>3</sup> The 'on-time payment rate' is the number (or value) of VAT payments made by the statutory due date in percent of the total number (or value) of VAT payments due, i.e. expressed as ratios:

• The on-time payment rate by number is:  $\frac{\text{Number of VAT payments made by the due date}}{\text{Total number of VAT payments due}} \times 100$

• The on-time payment rate by value is:  $\frac{\text{Value of VAT payments made by the due date}}{\text{Total value of VAT payments due}} \times 100$

**G. Domestic Tax Arrears**

(Ref: POA 5)

**Table 11. Value of Tax Arrears, 2013-15<sup>1</sup>**

	[2013]	[2014]	[2015]
	In local currency		
Total core tax revenue collections (from Table 1) <b>(A) (CIT+PAYE+VAT)</b>	15,954,764,339.53	19,468,347,261.30	18,527,270,560.48
Total core tax arrears at end of fiscal year <sup>2</sup> <b>(B)*</b>	8,455,700,798.95	15,558,200,255.00	24,430,802,916.00
Of which: Collectible <sup>3</sup> <b>(C)*</b>	8,455,700,798.95	15,558,200,255.00	24,288,651,879.00
Of which: More than 12 months' old <b>(D)</b>	6,455,239,311	11,388,874,494.00	15,547,330,096.00
	In percent		
Ratio of (B) to (A) <sup>4</sup>	53.0	79.9	131.9
Ratio of (C) to (A) <sup>5</sup>	53.0	79.9	131.1
Ratio of (D) to (B) <sup>6</sup>	76.3	73.2	63.6

**Note****Explanatory notes:**

<sup>1</sup> Data in this table will be used in assessing the value of core tax arrears relative to annual collections, and examining the extent to which unpaid tax liabilities are significantly overdue (i.e. older than 12 months).

<sup>2</sup> 'Total core tax arrears' include tax, penalties, and accumulated interest.

<sup>3</sup> 'Collectible' core tax arrears is defined as the total amount of domestic tax, including interest and penalties, that is overdue for payment and which is not subject to collection impediments. Collectible core tax arrears therefore generally exclude: (a) amounts formally disputed by the taxpayer and for which collection action has been suspended pending the outcome, (b) amounts that are not legally recoverable (e.g., debt foregone through bankruptcy), and (c) arrears otherwise uncollectible (e.g., the debtor has no funds or other assets).

<sup>4</sup> i.e.  $\frac{\text{Value of total core tax arrears at end of fiscal year (B)}}{\text{Total core tax collected for fiscal year (A)}} \times 100$

<sup>5</sup> i.e.  $\frac{\text{Value of collectible core tax arrears at end of fiscal year (C)}}{\text{Total core tax collected for fiscal year (A)}} \times 100$

<sup>6</sup> i.e.  $\frac{\text{Value of core tax arrears >12 months' old at end of year (D)}}{\text{Value of total core tax arrears at end of fiscal year (B)}} \times 100$

**H. Tax Dispute Resolution**

(Ref: POA 7)

<b>Table 12. Finalization of Administrative Reviews</b> (for most recent 12-month period to December 2015)							
Month	Total number finalized	Finalized within 30 days		Finalized within 60 days		Finalized within 90 days	
		Number	In percent of total	Number	In percent of total	Number	In percent of total
Jan-15	142	124	87.3	5	3.5	13	9.2
Feb-15	399	312	78.2	36	9.0	51	12.8
Mar-15	412	321	78.0	34	8.3	57	13.8
Apr-15	405	312	77.0	51	12.6	42	10.4
May-15	496	379	76.4	68	13.7	49	9.9
Jun-15	364	284	78.0	24	6.6	56	15.4
Jul-15	363	253	69.7	43	11.9	67	18.5
Aug-15	276	236	85.5	15	5.4	25	9.1
Sep-15	353	295	83.6	17	4.8	41	11.6
Oct-15	298	259	86.9	16	5.4	23	7.7
Nov-15	251	222	88.5	17	6.8	12	4.8
Dec-15	402	309	76.9	55	13.7	38	9.5
<b>12-month total</b>	<b>4161</b>	<b>3306</b>	<b>79.5</b>	<b>381</b>	<b>9.2</b>	<b>474</b>	<b>11.4</b>

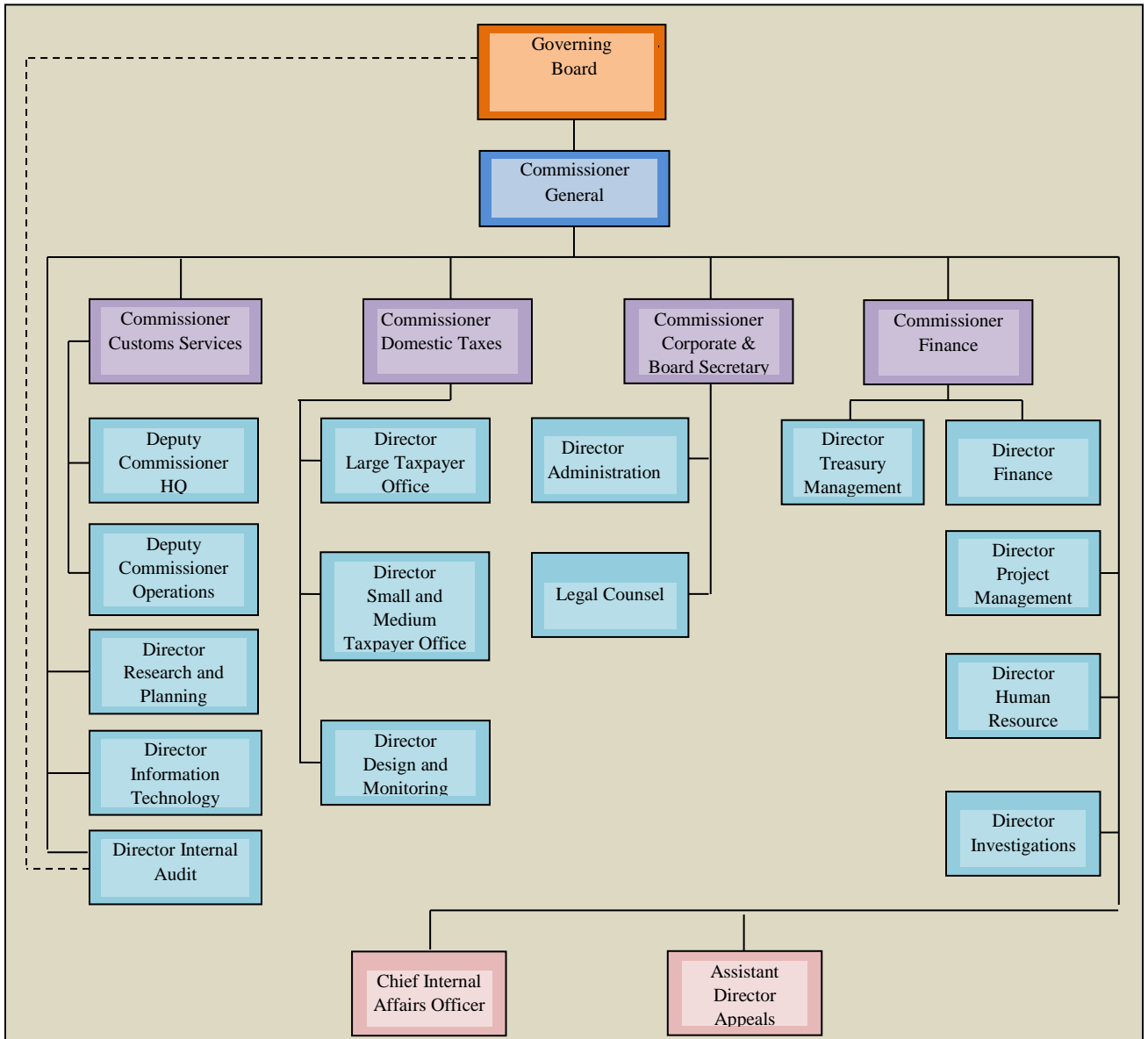
# I. Payment of VAT Refunds

(Ref: POA 8)

**Table 13. VAT Refunds**  
(12-month period to December 2015)

	Number of cases	Value in local currency
Total VAT refund claims received <b>(A)</b>	10,070	6,036,873,813.96
Total VAT refunds paid <sup>1</sup>	4705	6,014,284,520.52
Of which: paid within 30 days <b>(B)</b> <sup>2</sup>	1024	1,704,652,271.11
Of which: paid outside 30 days	3681	4,309,632,249.41
Total VAT refund claims declined <sup>3</sup>	129	544,364,261.39
Of which: declined within 30 days <b>(C)</b>	95	75,704,615.12
Of which: declined outside 30 days	34	468,659,646.27
Total VAT refund claims not processed <sup>4</sup>	7775	3,165,500,712.73
Of which: no decision taken to decline refund	7775	3,165,500,712.73
Of which: approved but not yet paid or offset		
In percent		
Ratio of (B+C) to (A) <sup>5</sup>	11.1	29.5
<p><b>Explanatory note:</b></p> <p><sup>1</sup> Include all refunds paid, as well as refunds offset against other tax liabilities.</p> <p><sup>2</sup> TADAT measures performance against a 30-day standard.</p> <p><sup>3</sup> Include cases where a formal decision has been taken to decline (refuse) the taxpayer's claim for refund (e.g., where the legal requirements for refund have not been met).</p> <p><sup>4</sup> Include all cases where refund processing is incomplete—i.e. where (a) the formal decision has not been taken to decline the refund claim; or (b) the refund has been approved but not paid or offset.</p> <p><sup>5</sup> i.e. <math>\frac{\text{VAT refunds paid within 30 days (B)} + \text{VAT refunds declined within 30 days (C)}}{\text{Total VAT refund claims received (A)}} \times 100</math></p>		

## Attachment IV. Organizational Chart



## Attachment V. Sources of Evidence

Indicators	Sources of Evidence
P1-1. Accurate and reliable taxpayer information.	<ul style="list-style-type: none"> <li>• Zambia Revenue Authority—Structure of the Senior Management of Zambia Revenue Authority</li> <li>• Zambia Income Tax Act Cap 323—requirements to have a TPIN, Sections 45 and 45A</li> <li>• Zambia Value Added Tax Act, Cap 331—requirements to register and the Commissioner General may prescribe, Sections 27 – 29</li> <li>• VAT guide 22052014163342—Part 2, registration rules:  <a href="https://www.zra.org.zm/download.htm?URL...//VAT%20guide22052014163342">https://www.zra.org.zm/download.htm?URL...//VAT%20guide22052014163342</a> </li> <li>• Taxpayer User Guide—e-Registration:  <a href="https://www.zra.org.zm/main.htm?actionCode=s howOnlineHelpPages&amp;flag=REG">https://www.zra.org.zm/main.htm?actionCode=s howOnlineHelpPages&amp;flag=REG</a> </li> <li>• ZRA website, e-Services, Taxpayer Registration:  <a href="https://www.zra.org.zm/documentUpload.htm?actionCode=eForms">https://www.zra.org.zm/documentUpload.htm?actionCode=eForms</a> </li> <li>• TPIN Form 1, Application for TPIN and Tax Registration / Amendment In Registration Details</li> <li>• TPIN Form 1 Annexures: Base Tax, Mineral Royalty, PAYE, Withholding Tax, Presumptive Tax, VAT, Excise Duty and Add Place of Business</li> <li>• Annex 3, Table 2, TADAT Performance Assessment Report</li> <li>• TPIN New list—updated as of October 31, 2013</li> <li>• Zambia Revenue Authority, Annual Reports for 2013 and 2014</li> <li>• Zambia Revenue Authority, Corporate Strategic Plan 2016 - 2018 document</li> <li>• Taxpayer Services Manual</li> <li>• Observation of taxpayer registration database</li> </ul>
P1-2. Knowledge of the potential taxpayer base.	<ul style="list-style-type: none"> <li>• Zambia Revenue Authority Annual Reports for 2013 and 2014</li> <li>• Block management reports (viewed)</li> </ul>
P2-3. Identification, assessment, ranking, and quantification of	<ul style="list-style-type: none"> <li>• Risk Management Policy-2016</li> <li>• Risk Management Policy-2014, v2.0</li> </ul>

Indicators	Sources of Evidence
compliance risks.	<ul style="list-style-type: none"> <li>• Monitoring and Evaluation – Regime BSC 2016-2018</li> <li>• Corporate Strategic Plan 2016-2018, page 4</li> <li>• Corporate Strategic Plan 2013 -2015, page 6.</li> <li>• TaxOnline Project, Audit Module User Guide, September 2015, Version 0.6.1</li> <li>• Mineral Value Chain (viewed)</li> <li>• Construction Sector (viewed)</li> <li>• Carbon Taxation (viewed)</li> <li>• Netting in Embassy and International Organization Employees, PAYE Compliance, April 2015</li> <li>• Review of the Presumptive Tax Regime in Zambia, September 2014.</li> <li>• Property Taxation, Capital Gains Tax and Mining Rights Tax in Zambia, October 2015</li> <li>• Report, “Estimation of the VAT GAP in Zambia”, by Michael Alexeev and Patrick M. Chileshe, dated November 29, 2012.</li> <li>• Report, “Estimation of the VAT GAP in Zambia”, by Michael Alexeev, dated August 12, 2015</li> <li>• SME Taxation in Zambia, October 2011</li> <li>• Tax Audit Strategy – 2016</li> <li>• Tax Audit Strategy – 2015</li> <li>• Taxpayer Services Compliance Strategy-2016</li> <li>• National Taxpayer Services Strategy- 2015</li> <li>• LTO Annual Compliance Plan 2015</li> </ul>
P2-4. Mitigation of risks through a compliance improvement plan.	<ul style="list-style-type: none"> <li>• Risk Management Policy-2016</li> <li>• Risk Management Policy-2014, v2.0</li> <li>• Monitoring and Evaluation – Regime BSC 2016-2018</li> <li>• DOMT Risk Register-2016</li> </ul>
P2-5. Monitoring and evaluation of compliance risk mitigation activities.	<ul style="list-style-type: none"> <li>• Monthly Monitoring Report Annual Divisional Action Plans 2015</li> </ul>
P2-6. Identification, assessment, and mitigation of institutional risks.	<ul style="list-style-type: none"> <li>• The tax administration bill, 2015: the ZRA consolidated proposed policy changes to the MoF.</li> <li>• Corporate Business Continuity and Crisis</li> </ul>



Indicators	Sources of Evidence
	Management Plan. <ul style="list-style-type: none"> <li>Monthly Monitoring Report, Annual Divisional Action Plans 2015</li> </ul>
P3-7. Scope, currency, and accessibility of information.	<ul style="list-style-type: none"> <li>Attachment III, table 3</li> <li>Budget speech 2016 as found on ZRA website on May 25 2016</li> <li>2016 Practice note no 1</li> <li>Leaflet Cash Register.pdf</li> <li>3 photos of taxpayer engagement activities</li> <li>Leaflet Due date reminder sample Direct Taxes</li> <li>Foreign Affairs Engagement Minutes</li> <li>Intranet and Website manual</li> <li>Monthly report advice center research and planning February 2016</li> <li>Leaflet Notice of VAT registration</li> <li>Leaflet Insurance Premium Levy</li> <li>Leaflet Leasing</li> <li>Excel Sheet TPS Staff</li> <li>Notice of PAYE</li> <li>Taxpayer engagement schedule for 2015</li> <li>Report on outreach programs</li> <li>Report on the cost of compliance survey LTO 2014</li> <li>Structure of the research and planning division</li> <li>Taxpayer service manual 2016</li> <li>The cost of compliance for small taxpayers in Zambia report 2014</li> <li>TPS Strategy 2016</li> <li>Leaflet Due date for Tax period April 2016</li> <li>Leaflet Fines for not observing Tax obligations</li> <li>Leaflet mineral royalty</li> <li>Hardcopy (CD) LTO2 advert on insurance premium</li> <li>Hardcopy of NKWAZI in flight magazine with advert on page 10 on withholding tax on rental income</li> <li>Hardcopy Role Profile Assistant Director Taxpayer Services</li> </ul>
P3-8. Scope of initiatives to reduce taxpayer compliance costs.	<ul style="list-style-type: none"> <li>ZRA website, visited May 27 2016  <a href="https://www.zra.org.zm/commonHomePage.htm?viewName=PresumptiveTax">https://www.zra.org.zm/commonHomePage.htm?viewName=PresumptiveTax</a>  <a href="https://www.zra.org.zm/commonHomePage.htm?viewName=PAYE">https://www.zra.org.zm/commonHomePage.htm?viewName=PAYE</a></li> </ul>

Indicators	Sources of Evidence
	<a href="https://www.zra.org.zm/commonHomePage.htm?viewName=eForms">https://www.zra.org.zm/commonHomePage.htm?viewName=eForms</a> <ul style="list-style-type: none"> <li>• Field-visit customer center</li> <li>• Email on penetration test TaxOnline</li> <li>• Taxpayer engagement EPayment option minutes</li> <li>• E-registration notice</li> <li>• Employers Guide to PAYE</li> <li>• Tax online security audit</li> <li>• Leaflet How to file your Tax Online return</li> <li>• Minutes of stakeholder meeting interfaces</li> </ul>
P3-9. Obtaining taxpayer feedback on products and services.	<ul style="list-style-type: none"> <li>• ZRA Perception Survey Questionnaire</li> <li>• ZRA Perception Survey 2015</li> <li>• Change management activities STO MTO 2014</li> <li>• Memorandum Taxpayer revised mineral royalty regime</li> <li>• Form return of insurance premium levy</li> <li>• Report of the technical committee recommendations on the implementation of vat on insurance December 30 2011</li> <li>• TAX POLICY REVIEW COMMITTEE REPORT for the 2016 Budget</li> <li>• Taxpayer perception service report 2015</li> <li>• Customer Service Monitoring form</li> <li>• Quarterly report on taxpayer charter 2015 1</li> <li>• Hardcopy Customer Service Monitoring Form</li> <li>• Hardcopy new LTO IPL Return Form</li> <li>• Hardcopy LTO Memo on tax awareness programs</li> <li>• Hardcopy LTO Mine tour reports</li> <li>• Hardcopy LTO Emails to IAZ</li> <li>• Report Capacity building for stakeholder to improve systems January – June 2015</li> <li>• Excel sheet summary table of proposals</li> <li>• Corporate Change Management report Q2</li> <li>• Domestic Taxes Modernization PPT</li> <li>• ICF change management activities workshop</li> <li>• ICF change management report Q1</li> <li>• ICF change management training report P2</li> <li>• Minutes of the Inaugural AW project steering committee</li> <li>• Minutes of PMC meeting for Finance</li> <li>• Minutes of TATA-ZRA steering committee</li> <li>• Report on the Chirundu E</li> </ul>

Indicators	Sources of Evidence
P4-10. On-time filing rate.	<ul style="list-style-type: none"> <li>Attachment III, Tables 4 -8</li> </ul>
P4-11. Use of electronic filing facilities.	<ul style="list-style-type: none"> <li>Attachment III, Table 9</li> <li>Return Details by Filing Method Report for 2014 and 2015</li> </ul>
P5-12. Use of electronic payment methods.	<ul style="list-style-type: none"> <li>Attachment III, Table 9</li> <li>E-payments methods  <a href="file:///C:/Users/Justi/Downloads/E-Payment%20Options22052015092443.pdf">file:///C:/Users/Justi/Downloads/ E-Payment%20Options22052015092443.pdf</a> </li> <li>Promotion of e-payment systems on the Zambia Revenue Authority website  <a href="file:///C:/Users/Justi/Downloads/RTGS%20Automation%20%20pix%20adve22052015094028.pdf">file:///C:/Users/Justi/Downloads/ RTGS%20Automation%20%20pix%20adve22052015094028.p df</a> </li> <li>Field Observation of the use of the Cash offices at the headquarters and in Kabwe</li> </ul>
P5-13. Use of efficient collection systems.	<ul style="list-style-type: none"> <li>Zambia Revenue Authority Income Tax Act – withholding at source for PAYE, interest and dividend income (Sec 81 -82)</li> <li>Zambia Revenue Authority Income Tax - Advance Payment Arrangements (Sec 77)</li> </ul>
P5-14. Timeliness of payments.	<ul style="list-style-type: none"> <li>Attachment III, Table 10</li> </ul>
P5-15. Stock and flow of tax arrears.	<ul style="list-style-type: none"> <li>Attachment III, Table 11</li> </ul>
P6-16. Scope of verification actions taken to detect and deter inaccurate reporting.	<ul style="list-style-type: none"> <li>2015 Domestic Tax Audit Strategy</li> <li>2016 Domestic Tax Audit Strategy</li> <li>Domestic Tax April 2016 Monthly Report</li> <li>Domestic Tax March 2016 Monthly Report</li> <li>LTO April 2016 Monthly Report</li> <li>LTO March 2016 Monthly Report (viewed)</li> <li>LTO Closed Case Summary, as of April 2016 (viewed)</li> <li>LTO 2016 Compliance Plan</li> <li>ZRA Audit Manual, April 2013</li> </ul>
P6-17. Extent of proactive initiatives to encourage accurate reporting.	<ul style="list-style-type: none"> <li>Draft Tax Administration Bill 2010, (Part XIII – Advance Rulings)</li> </ul>
P6-18. Monitoring the extent of inaccurate reporting.	<ul style="list-style-type: none"> <li>Report, “Estimation of the VAT GAP in Zambia”, by Michael Alexeev and Patrick M. Chileshe, dated November 29, 2012.</li> <li>Report, “Estimation of the VAT GAP in Zambia”, by Michael Alexeev, dated August 12, 2015</li> </ul>

Indicators	Sources of Evidence
P7-19. Existence of an independent, workable, and graduated dispute resolution process.	<ul style="list-style-type: none"> <li>• Sections 108 – 111 of the Income Tax Act 2015</li> <li>• Sections 21, 30-32 of the VAT Act 2015</li> <li>• Tax Appeals Tribunal Act 2015</li> <li>• Notice of assessment template</li> <li>• Domestic Taxes Division Objections and Appeals manual</li> <li>• <a href="https://www.zra.org.zm/commonHomePage.htm?viewName=TaxpayerCharter">https://www.zra.org.zm/commonHomePage.htm?viewName=TaxpayerCharter</a></li> <li>• <a href="http://www.rat.org.zm/">http://www.rat.org.zm/</a></li> <li>• Field enquiry by TADAT assessor</li> </ul>
P7-20. Time taken to resolve disputes.	<ul style="list-style-type: none"> <li>• Attachment III, Table 12</li> </ul>
P7-21. Degree to which dispute outcomes are acted upon.	<ul style="list-style-type: none"> <li>• Evidence of specific amendments to the Income Tax Act and VAT Act triggered by dispute outcomes at Supreme Court level</li> <li>• Evidence of a specific amendment to the VAT Act triggered by a dispute outcome at ZRA level- i.e. administrative review</li> <li>• 2016 ZRA Budget proposal, page 5</li> </ul>
P8-22. Contribution to government tax revenue forecasting process.	<ul style="list-style-type: none"> <li>• ZRA Corporate and Divisional Structures</li> <li>• Role profile for Assistant Director – Research and Policy</li> <li>• Ministry of Finance letter inviting ZRA to join Tax Policy Review Committee</li> <li>• ZRA Daily Stations Report of Collections 19 May 2016</li> <li>• 2016 Monthly revenue profile forecast</li> <li>• ZRA March 2016 Revenue Performance Report (Including First Quarter Analysis)</li> <li>• Tax Expenditures in Zambia 2013, by Research and Planning Department, ZRA</li> <li>• Draft agenda for SMM meeting 24 May 2016</li> </ul>
P8-23. Adequacy of the tax revenue accounting system.	<ul style="list-style-type: none"> <li>• Field observation of revenue accounting system TaxOnline</li> <li>• Field observation of payment posting and reconciliations process</li> <li>• TaxOnline Returns, Payments and Refunds Manual, October 2013</li> <li>• Report of the Auditor General on the Accounts of the Republic for 2014</li> <li>• Revenue Collection Income Tax 2014 Audit</li> </ul>

Indicators	Sources of Evidence
	Report, Internal Audit Department, December 2014
P8-24. Adequacy of tax refund processing	<ul style="list-style-type: none"> <li>• Field observation of VAT refund processing and credibility audit process</li> <li>• TaxOnline Returns, Payments and Refunds Manual, October 2013</li> <li>• VAT Act, section 19</li> <li>• Refund Ring Fencing letter to Ministry of Finance and Bank of Zambia, April 2016</li> <li>• ZRA Taxpayer Charter</li> <li>• Data gathered in Table 13</li> </ul>
P9-25. External oversight of the tax administration.	<ul style="list-style-type: none"> <li>• ZRA Organization Structure of the Governing Board and Senior Management, 2016.</li> <li>• Letter from Board evidencing plans to commission and budget an independent review of Internal Audit during 2017. (Viewed)</li> <li>• ZRA Annual report, (p.42)</li> <li>• ZRA Integrity Committee Quarterly Report to the Board, March 2016. (p.8)</li> <li>• Internal Audit Training (2014 and 2015)</li> </ul>
P9-26. Internal assurance mechanisms.	<ul style="list-style-type: none"> <li>• Section 25, Zambia Revenue Authority Act 1993, Cap 321</li> <li>• Report of the Auditor General on the Accounts of the Republic for 2014</li> <li>• ZRA Annual Report 2014</li> <li>• Report of the Public Accounts Committee on the Report of the Auditor General on the Accounts of the Republic for 2014, Accessed from Parliament website</li> <li>• Letter from National Assembly to Ministry of Finance requesting submission of Treasury Minutes on PAC report</li> <li>• ZRA Integrity Committee Quarterly Progress report, March 2016</li> <li>• Field enquiries about role of ombudsman</li> <li>• Public Protector Bill 2016, section 6</li> <li>• Public Protector Facebook page [website does not exist]</li> <li>• Anti-Corruption Act 2012, sections 6 and 7</li> </ul>
P9-27. Public perception of integrity.	<ul style="list-style-type: none"> <li>• ZRA Perception Survey Questionnaire</li> <li>• ZRA Perception Survey report 2015</li> </ul>

Indicators	Sources of Evidence
	<ul style="list-style-type: none"> <li>• Website ZRA, visited May 24 2016</li> <li>• Hardcopy Zambia Bribe Payers Index 2014</li> </ul>
P9-28. Publication of activities, results, and plans.	<ul style="list-style-type: none"> <li>• ZRA Annual report 2014 and letter of transmittal from the Chairman of the ZRA Board to the Minister of Finance</li> <li>• ZRA Act, Cap 321 section 25</li> <li>• ZRA Corporate Strategic Plan 2016 – 2018</li> <li>• <a href="https://www.zra.org.zm/commonView.htm?ACTION_TYPE=showForms&amp;RELEASE_TYPE=PUB">https://www.zra.org.zm/commonView.htm?ACTION_TYPE=showForms&amp;RELEASE_TYPE=PUB</a></li> </ul>

