

Tax Justice for Women and Girls in Zambia

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Executive Summary

Tax has been identified as an important tool in which government can redistribute resources to benefit all citizens but more particularly the most vulnerable in society. Gender inequality is still a major challenge globally as women and men still do not enjoy equal rights and opportunities as their male counterparts legally, socially and economically. Tax policy can be used to bridge the inequality gap by raising revenue effectively and redistributing this revenue through provision of quality public services that can be used to support women and girls. However, raising sufficient revenues has been a challenge for many developing countries like Zambia due to various tax leakages that undermine tax collection. Tax justice is therefore about ensuring that all individuals and companies pay their fair share of taxes to ensure sustainable and functional societies including a decent life for women and girls. This policy brief highlights challenges with the tax system and how these are weakening the Governments availability to achieve gender equality as well as recommendations to improve the situation.



1. Introduction

A country's tax system is an important building block of societies. It is one of the most powerful tools a Government can use to reduce income and gender inequality. Levels of inequality between rural and urban areas continue to rise affecting girls and women disproportionately. Public spending in socio-economic sectors is crucial for alleviating poverty and inequality and for saving lives and sustaining livelihoods. Women and girls, especially those marginalised or living in poverty, suffer the most when public services lack adequate funding. This includes lack of access to free quality public healthcare, water, education, childcare, social protection, and anti-violence, sexual and reproductive health services, and lack of safe public transport that make cities safer and more accessible for women.

Additionally, women are over represented in the poverty bracket and in Zambia about 56.7 percent of the women population are living in poverty. The United Nations' Gender Inequality Index (GII), which reflects gender-based inequalities in three dimensions – reproductive health, empowerment, and economic activity can be used to understand gender inequalities worldwide. Zambia has a GII value of 0.539, ranking it 137 out of 162 countries in the 2019 index showing that Zambia is still lagging behind in terms of achieving gender equality.

Tax justice is about ensuring that all individuals and companies pay their fair share of taxes to ensure sustainable and functional societies. Effective taxation systems are essential for enabling governments, to generate the revenues needed to finance the services, infrastructure, and investment necessary to drive economic growth. However, tax revenue collection as a share of GDP is only 15 to 20 percent in lower and middle income countries while it accounts for about 40 percent in upper income countries. According to the Zambia Revenue Authority in 2020 Zambia's tax to GDP ratio was recorded at only 16.3 percent.

Low tax collection in developing countries can be attributed to different problems. Some of the reasons include; the large size of the informal economy, limited capacities of revenue collection authorities to collect the right amount of taxes and a more complex problem known as Illicit Financial Flows (IFFs). Illicit Financial Flows are illegal movements of money or capital from one country to another. According to UNCTAD's Economic Development in Africa Report, every year, an estimated \$88.6 billion, equivalent to 3.7 percent of Africa's GDP, leaves the continent as illicit capital flight. IFFs represent a major drain on capital and revenues in Africa, undermining productive capacity and Africa's prospects for achieving the Sustainable Development Goals (SDGs) and ultimately promoting women's rights.

2. Tax collection limitations in Zambia

2.1. The large Size of the informal economy

The informal sector refers to all production units that are not registered with a tax or a licensing authority. The employed population can be divided into formal and informal employment. According to the Labor Force Survey, in 2019, formal employment was estimated at 31.4 percent while informal employment was at 68.6 percent.

Furthermore, the informal economy is made up of several unregistered businesses such as small-scale traders, farmers, small manufacturers, individual professionals and many different types of small-scale businesses. The lack of data, literature and evidence on the size, evolution, structure, causes and characteristics of the informal sector in Zambia impairs effective tax policy-making. It is therefore very difficult to collect the right amount of taxes from the informal sector given this lack of information.

2.2. A small number of tax payers

Zambia's biggest source of revenue is through income taxation particularly through P.A.Y.E. Income tax revenue through P.A.Y.E is often mobilized from just a small segment of the population thus burdening a few people with a high tax burden. According to the 2019 labor Survey Report, the employed population was estimated at 2.9 million people out of a population of 17.8 million people. Out of these 2.9 million people, a significant number, are tax exempt and therefore the number of people paying P.A.Y.E is much less. PAYE has been the largest contributor to Zambia's direct taxes and has consistently contributed more than Corporate Income Taxes over the past ten years.

This high dependence on P.A.Y.E. erodes citizens' disposable income and thereby leaves them with little income for their basic needs. This situation particularly affects women more as women continue to earn lower wages compared to their male counterparts. This has largely been attributed to allowing too many exemptions as well as corporate tax dodging. SMEs were also found to lack compliance. The Financial Intelligence Center (FIC) identified multiple cases of SMEs that were either not registered for tax purposes or were not tax compliant.

2.3. Illicit Financial Flows (IFFs)

The Financial Intelligence Center in its 2018 trends report revealed that Zambia was losing about \$3 Billion annually

as a result of tax fraud, money laundering and other financial crimes. Most of the Illicit Financial Flows in Zambia occur from the mining sector. The United Nations Economic Commission for Africa (UNECA) estimates that Zambia accounts for 65 percent of the continent's IFFs in copper.

The primary mechanisms for these IFFs in the context of extractives exporters such as Zambia is trade mis-invoicing and transfer mispricing. Trade mis-invoicing is defined as the act of misrepresenting the price or quantity of imports or exports in order to hide or accumulate money in other jurisdictions with the motive of be to evade taxes, avoid customs duties, transfer a kickback or launder money. Transfer pricing is the mechanism by which prices are chosen to value transactions between related legal entities within the same multinational enterprise (MNE). On the other hand, transfer mispricing occurs when one company sells goods or services to another related company at an inflated or deflated price in order to allocate profits to a lower-tax jurisdiction. Because these transactions are internal to a multinational company, they are often not subject to market pricing.

In Zambia mining companies like Glencore's Mopani Copper Mines, have been reported to transact with related parties that may have diminished their taxes paid. IFFs could be costing Zambia hundreds of millions of dollars annually. Zambia needs to try to work towards eliminating illicit financial flows and maximize revenue collection to boost domestic resource mobilization. The boost in revenue collection will be very beneficial in improving public service delivery in the country that supports the most vulnerable Zambians including women and children.

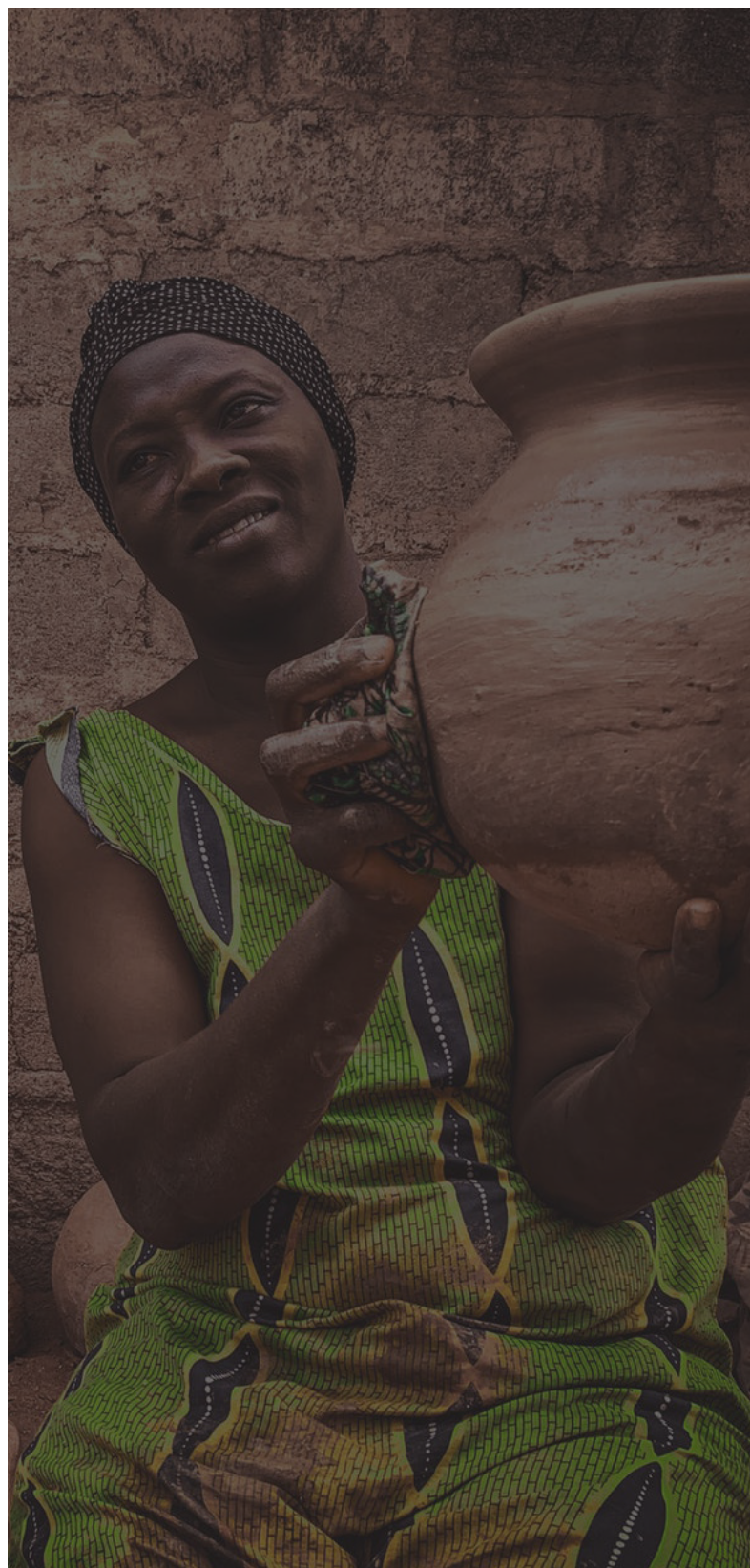
2.4. Numerous Tax Incentives

Zambia is constantly making efforts to attract large corporations and multinationals to invest in the country. To do this, different forms of tax incentives are usually proposed and granted to these large companies to encourage more investment. Tax incentives can take many different forms, such as tax holidays, reduced tax rates, credit or allowance for investment, preferential accounting standards such as accelerated depreciation and so on. The use of tax incentives on the basis that they are required to attract investments, is prevalent around the world.

There is however, increasing evidence that such policies are largely ineffective and unnecessarily erode public financing for development. Research shows that investors consider many other factors ahead of tax policies, such as economic and political stability, reliable infrastructure, availability of natural resources and human capital. World Bank and IMF studies in the Global South too echo the finding that tax incentives are not

the make-or-break criteria for investors and their effectiveness is 'linked to the environment where they are offered; in this case the quality of the investment climate is what matters.

Furthermore, according to the IMF because of Zambia's significant tax exemptions, large thresholds, and a multiplicity of tax rates, the country's tax to GDP ratio lags behind other SADC countries. Zambia needs to reevaluate its numerous tax incentives offered as they are a drain on the national coffers.



3. Assessing The Fairness of Taxes Through a Gender Lens

There are very few studies that have set out to examine the gender impact of taxation and the availability of relevant gender disaggregated data is still limited in the country. However, there are many reasons why various groups of women and men are likely to be affected by tax systems differently. These include: (i) women's often more vulnerable position in paid employment; (ii) women's unpaid work; (iii) different distributions of asset ownership and property rights; and (iv) different responsibilities for consumption expenditures.

Tax revenue comes from a variety of sources in Zambia which include direct taxes, such as personal income tax and corporate income tax; indirect taxes such as Value Added Taxes (VAT) on goods and services and import duties (or tariffs); and charges made for public services (often called user fees). The manner in which the Government raises revenue also needs to be analyzed through the gender lens as women may be more disadvantaged from these tax systems. For instance, women feel the brunt of regressive VAT (consumption taxes) as they tend to use larger portions of their income on food and basic goods for the household because of gender norms that assign them responsibility for the care of dependents. In Zambia there has been an increased reliance on indirect taxes largely due to improved VAT collection which has risen as a result of enhanced IT solutions. However, the growing dependence on regressive taxes like VAT while under collecting progressive taxes such as corporate income tax is worsening gender inequality.

Challenges in tax collection are depriving the Government's ability to provide quality services for women and girls. Women rely more heavily on public services and social protections for many reasons. Some of these include:

i) Due to unequal distribution of unpaid care work, access to nurseries, preschools and elderly care is particularly important for women;

ii) Reproductive health needs - women rely more on public healthcare and sanitary infrastructure in schools;

iii) Increased incidences of violence against women and girls; public services, e.g. safe public transport or streetlights, are particularly important for women.

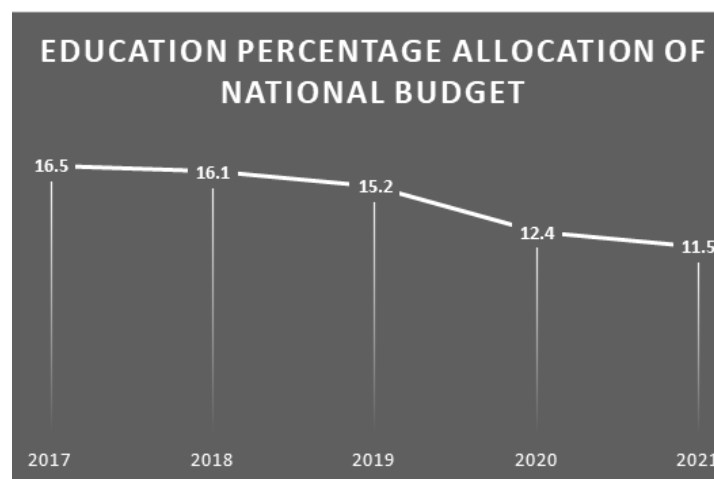
iv) Women are overrepresented among the poor, women often cannot afford access to private services.

4. Sectors pertinent to Women and Girls Welfare

Taxes are the most sustainable source of government revenues that pay for the vast majority of public services that societies rely on and governments need to progressively raise and spend more resources on the work and services that women need. Zambia as a country has been faced with several economic challenges that have contributed to its inability to effectively provide goods and services for citizens. Key amongst these challenges is a growing debt burden at 104 percent of GDP that has consumed public expenditure and has left little for public service delivery. The graphs below are an illustration of how public service delivery has been eroded in sectors which are important for women and girls in the past five years.

4.1. Education sector:

Education is one of the strongest tools a government has to reduce inequality, lifting up the poorest citizens and levelling the playing field. A progressive taxation and spending system can raise significant revenue for education sector spending. For example, Ecuador had tripled its education expenditure from US\$225 million in 2003–2006 to US\$941 million in 2007–2010 through effective tax mobilization policies. In Zambia's case, over the past five years the education sector has followed a downward trend as shown below:

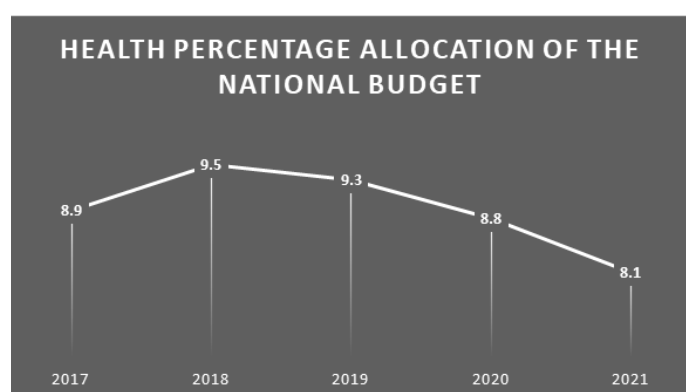


The education sector has seen a continuous decline in budget percentage allocation from 16.5 percent in 2017 to 11.5 percent in 2021. This takes the Government steps back in improving the livelihoods for women as education is key to empowering women in the long term.

6.2. Health Sector

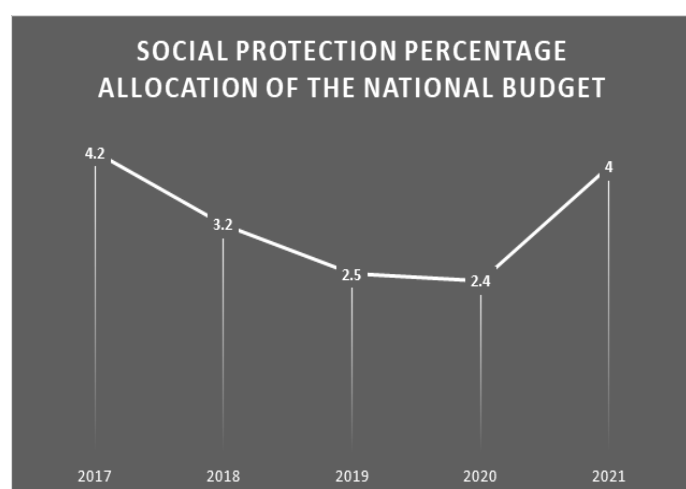
Pregnancy and childbirth increase women's need for life-saving healthcare, as well as the endemic nature of violence

against women and girls globally. Every day, women around the world die from preventable complications during pregnancy and childbirth. In 2015, the number of maternal deaths per 100 000 live births was estimated at 216 globally. 19 of every 1000 newborns don't survive their first month after birth. Developing countries with extremely low tax collections suffer from the highest child mortality levels. Almost all maternal deaths occur in under resourced settings and can be prevented. In 2001, heads of state of African Union countries met and pledged to set a target of allocating at least 15 percent of their annual budget to improve the health sector. Zambia has failed to meet these targets and the health sector allocation has been decreasing over the past few years as shown below:



6.3. Social Protection

Women face various risks because of their vulnerabilities and social protection programmes are therefore effective in contributing to protection and realization of women's rights. However, coverage of social protection is usually limited and more needs to be done to increase coverage to match the actual needs. The graph below shows the social protection budget allocation over the past years:

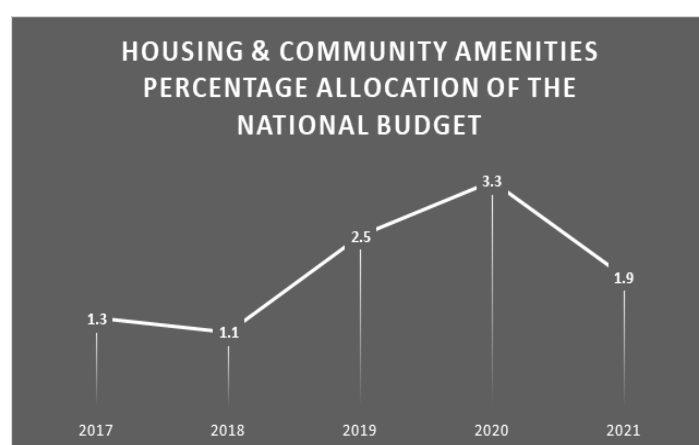


On a positive note the Government of Zambia increased the social protection allocation for 2021 which is a plus for the benefit of women. It is important that social protection challenges such as coordination and improper targeting

process for beneficiaries of the different social protection programmes countrywide are addressed so that these increase in budget allocations bring meaningful results.

6.4 Water and Sanitation

Water is recognized as a basic human right and hence all citizens must have access to clean and safe water in adequate quantities. Where there are no public water services, women and girls most often carry the burden of getting water to their homes at whatever human cost, making them vulnerable to violence, and keeping them away from education and other work. Access to public water is vital for women's economic autonomy. In Zambia the water and sanitation budget is catered for under the housing and community amenities budget line. The percentage allocation is shown below:



The decrease in allocation towards water supply and sanitation is of concern because access to safe quality water and sanitation is key to reducing developmental inequalities and promoting healthy lifestyles.

5. Conclusion

Tax leakages as a result of flawed tax laws, tax havens, and tax cuts intensify gender inequality because the resources to fund women's rights and economic equality are undermined. Zambia will not be able to achieve women's and girls' rights, gender equality or the Sustainable Development Goals without taking action to raise resources progressively to fund developmental programs that impact women and girls. It is now clear that the Government is struggling to finance key social sectors that improve the well-being of women as much of budget allocation towards these sectors had been declining over the past five years. There is an urgent need for the country to improve its local resource mobilization through sealing tax leakages in order to promote women and girl's rights and ultimately ensure that the wellbeing of women and girls is adequately promoted.

6. Recommendations:

- *Tax avoidance by multinational companies is an international problem and requires international cooperation. Base Erosion and Profit Shifting (BEPS) recommendations given by the OECD equip governments with domestic and international rules and instruments to address tax avoidance, ensuring that profits are taxed where economic activities generating the profits are performed and where value is created. These need to be adopted and implemented in Zambia. These will help prevent harmful tax practices draining local financial resources.*
- *In order to help improve compliance of taxes in the informal sector, there is need to earmark money to be reinvested into the markets for example for better infrastructure and cleaner and safe environments for women. Publicizing such earmarking would be necessary so that informal workers can identify how exactly their money is being used and therefore enhance oversight.*
- *Broaden the revenue base by raising resources locally in a progressive manner that will secure more resources for service provision. The Government can consider and introduction of wealth taxes. Wealth taxes could be directed at distinct forms of wealth, such as Capital Gains Tax and Inheritance taxes. If implemented with proper thresholds that ensure the taxation applies only to the wealthiest in society, wealth taxes can gather significant political support and reduce overall regressiveness of the national tax system. ZRA could benefit from having a specific unit that deals with the High Net Worth Individuals (HNWIs).*
- *The Government should continue to support the operations of ZRA by providing it with adequate funding to finance its operations, have adequate staff and operational infrastructure. Continued support is needed to enable ZRA keep pace with the complexities associated with mining taxation which is prone to IFFs.*
- *Practice gender budgeting to ensure that tax revenues are raised and spent in ways that promote gender equality and uphold the right of women to have an equal say in how public money is spent.*

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