

Press Statement

22 October 2020

About us

The Consumer Unity and Trust Society (CUTS) International, Lusaka is an NGO that was established in 2000 to function as a center for research, advocacy and networking on issues of trade and development, economic governance and consumer welfare.

The mission of the center is to function as a resource, co-ordination, as well as networking center, to promote South-South cooperation on trade and development by involving state and non-state actors (NSAs).

For further information please contact: The Director, Consumer Unity and Trust Society (CUTS), House No 32, Plot 407, Kudu Road, Kabulonga, Lusaka. Email: lusaka@cuts.org or phone: 0957944739.

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ZRA's Intensification of Tax Collection from Informal Sector

The Zambia Revenue Authority (ZRA), Ministry of Local Government and Ministry of Finance have signed a Memorandum of Understanding that will see local authorities collecting taxes from the informal sector in order to intensify tax collection. The intention of this MOU is to expand the tax base as well as ensure that every citizen contributes to the tax basket. In this light, the Fair Tax Monitor (FTM) a diagnostic overview tool of the National Tax System and highlights opportunities for making tax systems fairer.

Domestic Resource Mobilisation (DRM) has become a top Government agenda and the partnership will help the authority reach the much sought-after informal sector and widen the country's tax base. Formalisation of the taxation of informal economy can encourage business growth through the increased access to capital and the creation of a better business environment that provides an option for self-employment as it is also an avenue for people with insufficient skills for the formal sector.

Through the remittance of tax also, it will help build a culture of tax compliance and governance. That being said, the informal sector comprises of workers and businesses that are not registered through Patent and Company Registration Agency (PACRA) and do not pay taxes to the ZRA. As a result, very little is known about the actual size and nature of businesses in the informal sector in Zambia.

Business in the informal sector is unpredictable and most businesses do not make a lot of money, having looked at the possible positives of intensifying tax collection from the informal sector, on the negative side, the MOU could lead to reduced incomes and threaten the survival of businesses because the people involved in the informal sector generate low incomes thus taxing them will further reduce their incomes which will have a direct impact on poverty levels.

One of the ways in which the government can tax businesses while they remain informal, is through the administration of presumptive taxes.

Presumptive taxes are estimates of tax payable that are used in dealing with incomes or activities that are hard to tax, for instance in the informal sector. Therefore, with the signing of the MOU presumptive taxation offers the possibility of reducing tax evasion at low cost and broadening the revenue base. In Zambia, there are several presumptive taxes for the informal sector, but notable ones are the turnover tax, base taxes, and levies on small scale passenger transport operators. Nevertheless, it is important to implement tax policies that are gender neutral to ensure fair taxation in the informal economy.

As more women than men are employed in the informal sector, however, it is important to implement presumptive tax policies that are gender-responsive to this. The lack of gender-responsive policies on taxation renders the regime regressive, this is worsened by the lack of gender disaggregated tax data. Nonetheless, there are no tax exemptions for vulnerable people or special groups, therefore, it is essential that the tax burden is distributed fairly and made more equitable.

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The signing of the MOU is a welcome initiative that will enhance the collection of certain taxes by ZRA, however there is need for ZRA to improve its database of registered taxpayers as it currently contains inaccuracies, therefore the authority must constantly engage with the local government authorities in acquiring robust database of marketers and residents in the districts. Additionally, ZRA must focus on creating innovations embarked on a modernisation drive in response to the COVID 19 pandemic in order to improve efficiency and compliance of tax collection.

Going forward, should recognise viable businesses operating in the informal sector and finance them financial support from the government will encourage more businesses to be tax compliant. With regards to presumptive tax, as many vulnerable groups (women, youth, the disabled etc.) are employed in the informal sector, it is important to implement tax policies that are alive to this and lift the tax burden from lower-income individuals and increase the effective taxation of wealthier individuals and enforce compliance as a source of progressive taxation in the quest to address inequality. In addition, the Zambia Revenue Authority must involve the informal sector through various mechanisms such as taxpayer education and advisory services in line with ZRA Taxpayer Education Strategy.

By Ngosa Mutupa, Research Assistant Intern.