

## CONCLUSION

65. Mr Speaker Sir, the recovery and prospective growth of our economy following the devastating consequences of the COVID-19 pandemic requires Government intervention to restore the viability of business and also boost taxpayer incomes.
66. It is, therefore, essential that taxpayers take advantage of the existing and proposed incentives, mindful of the reporting requirements that should be adhered to, in order to enhance transparency and accountability in utilisation.
67. Finally, Mr Speaker Sir, the realisation of national aspirations through implementation of Government programmes and projects, depends to a larger extent on domestic revenue generation, hence voluntary compliance should be a virtue for every citizen. This is a win-win situation for both Government and taxpayers as we collectively build and develop our nation.

Hon. Prof. M. Ncube

**MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT**

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## **THE 2020 MID-YEAR BUDGET REVIEW REVENUE MEASURES**

**Presented to the Parliament of Zimbabwe**  
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By

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*Excise Duty on Fuel*

60. Mr Speaker Sir, excise duty on fuel sold in local currency is currently pegged at a specific rate of ZWL 17.2 and ZWL 14.3 for petrol and diesel, respectively.
61. Government has, on several occasions, adjusted the excise duty rates in line with economic developments, cognisant of the need to create a balance between optimal revenue collection and consumer protection.
62. In view of the need to lessen the administrative burden of frequent legislative changes, it is necessary to introduce an *Automatic Excise Duty Adjustment Mechanism*, using current specific rates as the base for adjustment.
63. I, therefore, propose that excise duty be reviewed on a monthly basis and calculated as:  $B \times \frac{E_{w4}}{E_{w1}}$

Where:

**B** represents the rate of excise duty for petrol or diesel chargeable on the last day of every month;

**E<sub>w1</sub>** represents the foreign exchange rate quoted during the first week of the month preceding the current month; and,

**E<sub>w4</sub>** represents the foreign exchange rate quoted during the last week of the month preceding the current month.

64. This measure is with effect from 1 August 2020.

53. I, therefore, propose to compel applicants for *Rebate of Duty Facilities* to submit a valid *Tax Clearance Certificate* accompanied by *Income Tax Returns* for the previous two years.
54. New businesses will, however, continue to be considered on the basis of submission of a valid *Tax Clearance Certificate* only.
55. This measure is with effect from 1 August 2020.
- Border Post Enhancement*
56. Honourable Members would be aware that Zimbabwe remains a major transit route for both *North and South Bound* traffic. During the past 3 months, traffic volumes have increased from an average of 500 to 1 000 commercial trucks per day.
57. The surge in traffic volumes has created opportunities for smuggling of goods, in particular groceries, through designated and undesignated entry points. This is corroborated by the increase in seizures of undeclared commercial cargo.
58. In order to curtail smuggling activities, I propose that the Zimbabwe Revenue Authority be empowered to introduce *Anti-Smuggling Surveillance Drones* at both designated and undesignated entry points.
59. Treasury will, thus, provide finance for the purchase of the necessary equipment, in order to facilitate immediate rollout of the program.

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*Duty Exemption on Donations of Vehicles to Government by Development Partners*

48. Mr Speaker Sir, a number of Government Ministries and Departments receive aid in the form of operational vehicles to support various *Approved Projects*.
49. In support of the local vehicle manufacturing industry, current legislation excludes single and double cab trucks from the *Duty Free Certificate Facility*.
50. In view of the current gap in the local industry, I propose to include donated single and double cab trucks on the *Duty Free Certificate Facility*, with effect from 1 August 2020.

**Tax Administration**

*Transparency and Accountability in Utilization of Rebate Facilities*

51. Mr Speaker Sir, applicants for Rebate of Duty Facilities should be registered as taxpayers and possess a valid *Tax Clearance Certificate*, in order to qualify for the concessions.
52. However, it has been observed that some companies are only filing tax returns, in order to obtain a *Tax Clearance Certificate*, for purposes of benefiting from tax concessions, thereby prejudicing the Fiscus of revenue.

## Value Added Tax

### *Value Added Tax Recording of Electronic Transactions*

44. Government, in 2010, introduced the use of *Electronic Fiscal Devices* and *Cash Registers* by *Registered Operators* with a view to plug tax revenue leakages. The devices record and instantly transmit real time data to ZIMRA.
45. Whereas Government has authorised the use of foreign currency on the local market, current legislation does not require *VAT Registered Operators* to produce customer sales receipts reflecting the currency of trade. There is a risk of understating revenue, especially where foreign currency transactions are reported in local currency.
46. In order to mitigate risk on fiscal revenue, as well as enhance transparency, I propose to compel *VAT Registered Operators* to configure *Fiscal Devices* to capture all transactions in the currency of trade and also produce the respective invoice in the tendered currency.
47. The Zimbabwe Revenue Authority will avail the requisite technology to interface with *Registered Operators' systems* in order to enable data analysis and manage *Electronic Fiscal Devices* in a manner that enhances accounting of VAT collections.

## INTRODUCTION

1. Mr Speaker Sir, I have already alluded to the severity of the COVID-19 pandemic and its consequences on the macroeconomic environment. We are faced with a huge task to perform a balancing act that provides support to industry, avails taxpayers the necessary relief to enhance disposable income, promote capital accumulation, which is crucial in supporting the economic rebound and also protect revenue sources.

## REVENUE MEASURES

### **Support to Industry**

#### *Customs Duty Exemption on Top Dressing Fertiliser*

2. Mr Speaker Sir, Government has, over the years, availed duty free importation of key raw materials used in the manufacture of fertiliser.
3. Consequently, the local fertiliser manufacturing industry has experienced growth in the supply of both compound and top dressing fertiliser. The supply deficiency in top dressing fertiliser, which include urea and ammonium nitrate, is steadily declining, as the manufacturing industry enhances capacity.

4. In order to close the supply gap, I propose to ring-fence 120 000 metric tonnes of *Top Dressing Fertiliser* under *Duty Exemption* for approved manufacturing companies for the 2020/2021 summer cropping season.

### **Tax Relief Measures**

#### **Personal Income Tax**

##### *Tax-Free Threshold*

5. Mr Speaker Sir, in an effort to cushion workers from bracket creep, a phenomenon whereby previously untaxed income become liable to tax due to inflation induced wage and salary adjustments, Government reviewed upwards the tax-free threshold to ZWL\$2 000 per month and accordingly adjusted the tax brackets.
6. However, prevailing market conditions have necessitated further review of employee salaries and wages.
7. In order to minimize the tax burden, and also enhance disposable income, particularly during this period when a sizeable number of households are yet to recover from the effects of the COVID-19 lockdown, I propose to review the tax-free threshold from ZWL\$ 2 000 to ZWL\$ 5 000 per month.

##### *Tax Free Threshold and Maximum Tax Payable per Transaction*

39. In line with market conditions, I propose to review the tax-free threshold for local currency transactions from ZW\$100 to ZW\$300.
40. In addition, I propose to exempt from tax, foreign currency transactions not exceeding US\$5.
41. I, further propose to review the maximum tax payable per transaction by corporates from ZW\$25 000 to ZW\$50 000 on transactions with values exceeding ZW\$2 500 000.
42. Accordingly a maximum tax of US\$ 2 000 is proposed for foreign currency transactions with a value exceeding US\$ 100 000.
43. These measures are with effect from 1 August 2020.



## **Intermediated Money Transfer Tax**

### *Payment of IMTT on Foreign Currency Transactions*

34. Current legislation exempts the transfer of money into and from *Nostro* foreign currency accounts from *Intermediated Money Transfer Tax*.
35. Following the legalised use of foreign currency in domestic trade, there has been an upsurge in electronic transfers of foreign currency for transaction purposes. The current exemption has, thus, created an unfair advantage for taxpayers transacting in foreign currency, thereby raising equity considerations.
36. Furthermore, the preference for foreign currency by most business has undermined the revenue generating capacity of the tax.
37. I, therefore, propose to extend *Intermediated Money Transfer Tax* to cover foreign currency transactions, with effect from 1 August 2020.
38. For the avoidance of doubt, transactions for organisations accredited in terms of the *Privileges and Immunities Act* (Chapter 3:03) remain exempt from tax.

8. I, further, propose to adjust the tax bands to begin at ZWL\$ 5 001 and end at ZWL\$ 100 000, above which the *Highest Marginal Tax* rate of 40% will apply, with effect from 1 August 2020.

### *Tax Exemption on Risk Allowance Earned by Frontline Health Personnel*

9. Mr Speaker Sir, *Frontline Health Personnel* have exhibited remarkable commitment to provide health care services to individuals affected by Covid-19 despite the attendant health risks.
10. In line with the undertaking already made by His Excellency, the President, to reward such selfless commitment, I propose to exempt from tax, COVID-19 *Risk Allowances* payable to *Frontline Public Sector Health Personnel* for a period of twelve (12) months beginning 1 April 2020.
11. The tax-exempt portion will be limited to agreed categories and thresholds.

## Corporate Income Tax

### *Incentives for the Victoria Falls Securities Exchange (VFSE) and Investors*

12. Honourable Members would be aware of Government's plan to launch the *Victoria Falls Securities Exchange*, with a view to attract critical offshore capital to the economy.
13. The primary objective of the VFSE, which will be established within the *Victoria Falls Special Economic Zone*, is to mobilise foreign currency denominated portfolio investment.
14. As part of the incentive package to facilitate establishment and full operationalisation of the exchange, I propose the following incentives for the *Victoria Falls Securities Exchange* and investors:
  - Exemption from *Corporate Income Tax* for the VFSE;
  - Exemption from *Capital Gains Withholding Tax* on disposal of shares listed on the VFSE; and,
  - A lower rate of 5% on dividends payable to non-resident investors on the VFSE.

costs incurred in converting ore to a marketable mineral are not deductible against gross revenue proceeds.

30. A number of companies are, however, opting to pay royalties on the net smelter returns, wherein the processing costs would have been deducted from the gross revenue proceeds.
31. The varied basis on which royalties are payable undermines revenue flows to the *Fiscus*. Furthermore, it creates an unfair competitive advantage for some mining companies.
32. In determining the appropriate rates for royalties, Government is mindful of the costs associated with processing mineral ore for sale on the international market, as well as the need to minimise the tax administration burden, particularly with regards to assessment and verification of processing costs.
33. In order to ensure uniformity in the assessment of mineral royalty payments and also promote equal treatment of mining companies, it is affirmed that, no beneficiation or processing costs are deductible from the gross mineral proceeds when calculating mineral royalty payments. Such costs will only be deductible when taxpayers are self-assessing for taxable income.



## **Value Added Tax**

### *Tax Exemption on Domestic Tourists Accommodation*

26. The *Hospitality Industry* is one of the sectors most affected by the Covid-19 pandemic, hence it is essential for Government to take a leading role in supporting its revival.
27. As the country gradually opens up, affordability of services, particularly accommodation and other activities in resort centres, will be central to the measures aimed at attracting tourists.
28. In line with the commitment by His Excellency the President, I propose to exempt accommodation services offered to *Domestic Tourists* from VAT for a period of twelve (12) months commencing 1 August 2020.

## **Revenue Enhancing Measures**

### **Mineral Royalties**

#### *Base for Calculating Mineral Royalties*

29. Mr Speaker Sir, mineral royalties are payable on the face value of the invoice or gross fair market value of minerals produced, as compensation for extracting exhaustible and valuable resources. Under this royalty assessment method,

### *Allowable Deductions on Health Related Donations*

15. Following the outbreak of the COVID-19 pandemic, individuals and corporates, among other stakeholders, partnered with Government to rehabilitate medical facilities and also support vulnerable members of society through provision of basic necessities.
16. Such interventions have gone a long way in improving the country's preparedness for the health impact of the pandemic.
17. Whereas such support is voluntary, Government also recognises the sacrifice made by these stakeholders towards supporting initiatives to minimise the health and social impact of the pandemic. Such a goodwill gesture should be encouraged, in order to further strengthen the health delivery system and social support framework.
18. In this regard, I propose to review the maximum allowable deduction on donations by corporates to the local currency equivalent of US\$100 000.
19. In line with the current legislative provisions, the deduction will be limited to amounts paid to the State or to a Fund, including donations, by a taxpayer during the year of assessment for

any one or more of the following purposes approved by the Minister responsible for Health:-

- purchase of medical equipment for a hospital operated by the State, a local authority or a religious organisation;
- the construction, extension or maintenance of a hospital operated by the State, a local authority or a religious organisation; and,
- The procurement of drugs, including anti-retroviral drugs, to be used in a hospital operated by the State, a local authority or a religious organisation.

#### *Tax Exemption on University Infrastructure Projects*

20. Mr Speaker Sir, tertiary institutions continue to grapple with inadequate on-campus student accommodation. This has forced the majority of students to seek alternative off-campus accommodation, which in most cases is expensive, insecure and un conducive to learning.
21. In order to address the challenge, the *Infrastructure Development Bank of Zimbabwe* (IDBZ) has developed a model for private sector participation in the provision of student accommodation.

22. The model involves the establishment of *Special Purpose Vehicles* (SPVs) wholly owned by the IDBZ, wherein the private sector is invited to subscribe for shares.
23. Such partnerships and funding arrangements reduce dependence on the overburdened *Fiscus*, hence should be supported through measures to enhance investor returns.
24. I, therefore, propose to exempt income accruing from *Specified Projects* to construct student accommodation and supporting infrastructure from *Income Tax* with effect from 1 January 2021.
25. As a *quid pro quo* to the *Tax Exemption*, the reprieve will be granted subject to fulfilling the following conditions:
- The financing models of the SPVs should be structured to guarantee a maximum monthly accommodation fee to be agreed with beneficiaries of the *Tax Exemption Facility*, with a view to guarantee affordability; and,
  - The maximum occupancy per room should not exceed two students, with a view to ensure decency of accommodation facilities.