

A Study of the Effect of Covid-19 on Tax Administration in Zambia

Mwape Ilunga

Graduate School of Business, University of Zambia, Lusaka, Zambia

Corresponding Author: mwapeilunga96@gmail.com

Received: 26-01-2024

Revised: 13-02-2024

Accepted: 29-02-2024

ABSTRACT

The objective of this study was to assess the effects of the Covid-19 pandemic on tax administration in Zambia. The study focused on the operations of Zambia Revenue Authority during the pandemic. The data collected consisted of tax statistics obtained from ZRA research and policy department. Descriptive statistics were used to analyze the data collected. The results showed that the Covid-19 pandemic had a devastating impact on revenue collections and tax compliance to some extent. The number of taxpayer registrations and returns filed reduced during the pandemic year. One positive impact that the pandemic had on tax administration is the increase of e-services adoption during the pandemic, the revenue authority recorded highest online user sign-ups during the pandemic in comparison to years prior and after the pandemic. The Covid-19 pandemic did gauge the authority's level of resilience in response to national health crisis. Based on the findings and the conclusions drawn from this study, the research recommends that ZRA formulates strategies that will better handle such a crisis in the future. Strategies that the organization could formulate are ways of taxing the digital economy, the Covid-19 pandemic brought about new modes of doing business mostly through online platforms. Zambia Revenue Authority should therefore foster ways of collecting revenues generated through the digital economy.

Keywords: covid-19, tax administration, tax compliance

I. INTRODUCTION

On 18 March 2020, Zambia reported the first two infections of COVID-19. This was a couple who had been on holiday in France. Four months later, at the end of July, the Ministry of Health reported that the COVID-19 situation had deteriorated and infection had increased from 1 632 infected cases reported on 6 July to 4 481 cases recorded on 26 July 2020 (Kanduza, 2020). Subsequently, from early March 2020, COVID-19 in Zambia brought about devastating impacts on the country's economy not withstanding tax administration.

Tax administration in Zambia is anchored by tax laws enacted by parliament and is administered by the Zambia Revenue Authority. Zambia Revenue Authority was formed in 1994 as a quasi-independent Revenue Authority with the mandate to collect taxes on behalf of the Government of Zambia, the formation of ZRA was preceded by government reforms in tax legislation and administration with support from bilateral and multi-lateral donors in the early 1990s (Nalishebo & Halwampa, 2014).

The effects of Covid-19 on ZRA's tax administration largely originated from the poor performance of the domestic economy in the year 2020. In real terms, the domestic economy contracted by 3.0 percent in 2020 from the 1.4 percent growth recorded in 2019. The negative growth was mainly on account of reduced output in education; arts, entertainment and recreation; accommodation and food services; wholesale and retail trade, repair of motor vehicles and motorcycles; construction; and manufacturing sectors. The slowdown in global economic activity as a result of COVID-19 constricted capital flows which partly affected the performance of the Kwacha against major trading currencies.

The effects of the pandemic on tax administration were degenerated by interest rate, exchange rate and inflation rate increases (Larina, L.B., et al., 2021). All these economic factors stated above had a negative effect on Zambia Revenue Authority's tax administration due to Covid-19. During the pick of the Covid-19 pandemic ZRA collected K70, 543.2 million in gross taxes while refunds stood at K12, 878.1 million. The net outturn therefore stood at K57, 665.1 million against a period target of K59, 037.5 million, thereby registering a deficit of K1, 372.4 million or 2.3 percent below the Budget target. However, this deficit was significantly lower than the projected deficit of K6.9 billion (Zambia Revenue Authority, 2020). This study therefore seeks assesses both the positive and negative outcomes in Zambia's tax administration due to the Covid-19 pandemic.

II. REVIEW OF LITERATURE

Tax administration is about implementing and enforcing tax laws and receiving this mandate by law. The core business of tax administration is the levying and collection of taxes imposed by law (Handema, M., Haabazoka, L. (2020)). It is important that tax administrators establish a clear definition of their core business from the outset and make it known to their stakeholders (Alink & Kommer, 2016). In construct, (Mikhaleva, et al., 2018) state that there is no official definition of tax administration, though this notion is used in documents addressing taxation issues. Currently, there are various perspectives regarding the concept of “tax administration”. According to the (United Nations Economic Commission for Africa, 2019) tax administration is the execution of the core activities for collecting taxes and includes activities such as; identifying “taxable subjects” (individuals or business enterprises), creating a system of records on taxable subjects, regularly assessing tax liabilities, billing taxpayers accordingly, collecting payments, dealing with non-payments, arrears and refunds, auditing the tax assessments of samples of taxpayers, resolving disputes between taxpayers and tax collectors.

In most developing countries national tax collection is carried out by line departments within the Ministry of Finance. However, over the past two decades more than 30 developing countries, especially in Latin America and Africa, have created revenue authorities whereby the tax administration function has devolved from the Ministry of Finance to a semiautonomous entity. (Odd-Helge Fjeldstad - Chr. Michelsen Institute, 2007). Similarly, (Kloeden, 2011) states that the advent of the semiautonomous RA over the past two decades has been a distinguishing feature of revenue administration reform in Anglophone Africa, perhaps more so than in any other region. (Moore, 2014) identified the major tax administration reforms in Africa to have had a focus on three issues which include; (i) the widespread introduction of VAT; (ii) the adoption of advanced tax administration reforms based on low cost ICTs, including the establishment of large taxpayer units, greater use of self-assessment coupled with better verification, and measures to make tax paying easier and less contentious for taxpayers; (iii) The creation of semi-autonomous revenue authorities (S.A.R.A’s), with the intention of freeing them from bureaucratic straitjackets and political interference.

According to (DiJohn, 2010) the tax-reform process in Zambia since the early 1990s has been well documented. (DiJohn, 2010) further states that the reforms undertaken by Zambia were part of a broader economic liberalization program which resulted in the creation of an independent taxation authority ‘ZRA’ in 1994, the Zambia Revenue Authority (ZRA) was established in 1994 to collect direct taxes (income tax), indirect taxes (excise tax, VAT, property-transfer tax), customs and the mineral-royalty tax for the Zambian government. Much later, a Large Taxpayers Office (LTO) was created in 2008, while a Small and Medium Taxpayer Office (SMTO) was setup in 2010. (P.M.R.C, 2020) enlightens that, since the establishment of ZRA in 1994, there has been a major overhaul in tax administration. The changes in tax reform have brought about better tax achievements in that the ZRA revenue system has proven to be better than the previous tax system as evidenced from an increase in capturing of more revenue (Mwanaumo, E.M., et al, 2020). (Dreisbach, 2019) attributes the increase in capturing more revenue to the introduction of a new tax administration system called ‘TaxOnline’ that was introduced in the year 2012, this new electronic system replaced an inefficient, fragmented system that had tax registrations, returns, and payments modules for only three tax types while the rest were manually administered, using paper forms.

III. THEORETICAL FRAMEWORK

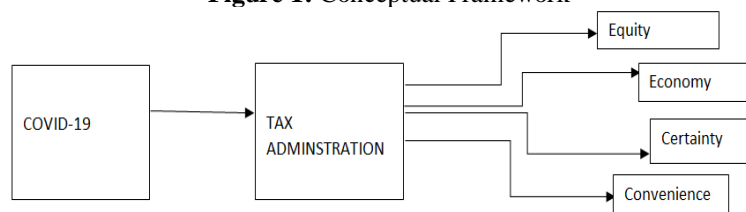
3.1 Principles of Taxation Theory

The key theory that provided the theoretical background for this study is the principles of taxation theory based on Adam Smith’s Tax Principles.

Adam Smith develops four principles of fair taxation, those four principles are known as the canon of taxation and are: Equity, Certainty, Convenience and Simplicity (Kabinga, et al., 2016).

IV. CONCEPTUAL FRAMEWORK

Figure 1: Conceptual Framework



Source: Author (2023)

Research Hypothesis

Alternative Hypothesis: The level of effectiveness of tax administration has been negatively impacted by the Covid-19 pandemic.

Null Hypothesis: The level of effectiveness of tax administration has not been negatively impacted by the Covid-19 pandemic.

V. RESEARCH METHODOLOGY

The study adopted a descriptive research design. Further, this study adopted quantitative methods in its data collection techniques. The study population included Zambia Revenue Authority members of staff under Lusaka Indirect Taxes and Excise Division. The study population consisted of 242 employees under Lusaka Indirect taxes division, this gave rise to a sample size of 70 ZRA employees, with the margin of error considered being 10%.

Primary data was collected using questionnaires and whilst secondary data for this study was collected from tax statistics published by ZRA’s Research and Policy Department.

5.1 Reliability and Validity

This research guaranteed that validity of the measuring instruments was obtained by ensuring that data collected from the research provided accurate answers to the study’s research questions. Results obtained from this research were checked for how well the corresponded to the study’s established theories. In terms of reliability this research study employed the test-retest reliability method, this involved issuing of questionnaires to a set group of respondents that consisted of ZRA employees on a first-time basis. After an interval of 10 days the same group of respondents were issued with the same questionnaire for the second time. Thus, testing reliability.

VI. RESULT ANALYSIS

6.1 Tax Compliance during Covid-19 Pandemic Measured through Z.R.A’s Block Management System (ZRA Statistics)

The Block Management System was designed in order to manage tax affairs of individuals, small and medium enterprises by demarcating the areas in which they conduct business into sizeable and manageable blocks (ATAF, 2014). Zambia Revenue Authority implemented the block management system as a way of monitoring and improving taxpayer compliance through grouping taxpayer’s according to their locations, this system enables the revenue authority to understand its taxpayers needs better. This research observes taxpayer registration data obtained through the block management system as a measure of taxpayer compliance. The BMS tax registration data obtained from Zambia Revenue Authority covers the years 2017 to 2022 and is shown in the figure 2 below.

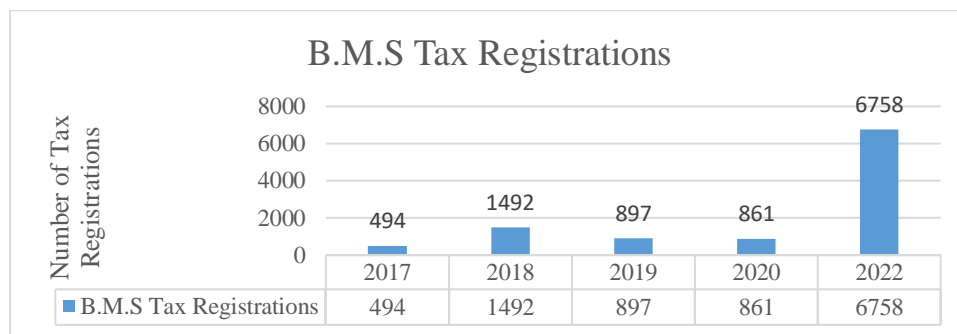


Figure 2: Tax Registrations under the Block Management System (BMS)

From the data presented above it is worth noting that the number of tax registrations under the Block Management System declined slightly in 2020 during the Covid-19 pandemic in comparison to 2019. This is an indication that there was indeed a drop-in taxpayer compliance during the pandemic. The Block Management System is a good way of monitoring taxpayer compliance as it involves working with taxpayers closely and thus provides a clear picture of the level of taxpayer compliance at grass root levels.

6.2 Effectiveness of Tax Authority Audits Conducted during the Pandemic (ZRA Tax Statistics)

Revenue arising from Tax audit for the years 2017 to 2022 is shown in the figure 3 below:

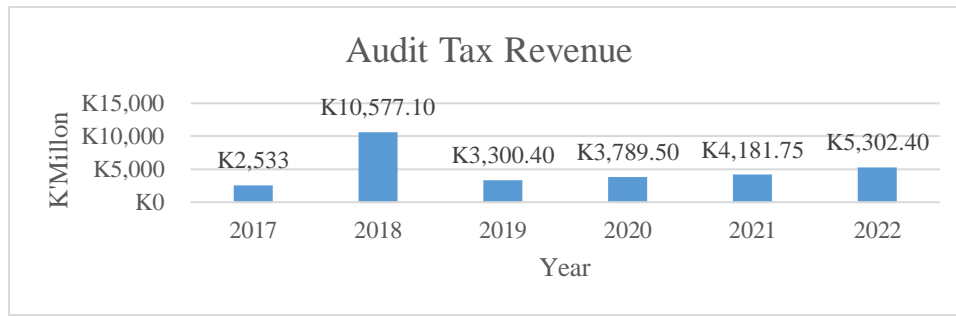


Figure 3: Yearly Tax Audit Revenue

As shown in the figure above, tax revenues generated from audits had increased progressively in the years 2019 to 2022. The progressive increase in tax revenues from audits is an indication of either increase in non-compliance amongst taxpayers or improved utilization of third-party information and additional intelligence information.

6.3 Return Filing and Payment during the Pandemic (ZRA Tax Statistics)

Figure 4 below shows the number of tax returns filed on all tax types for the years 2017 to 2022.

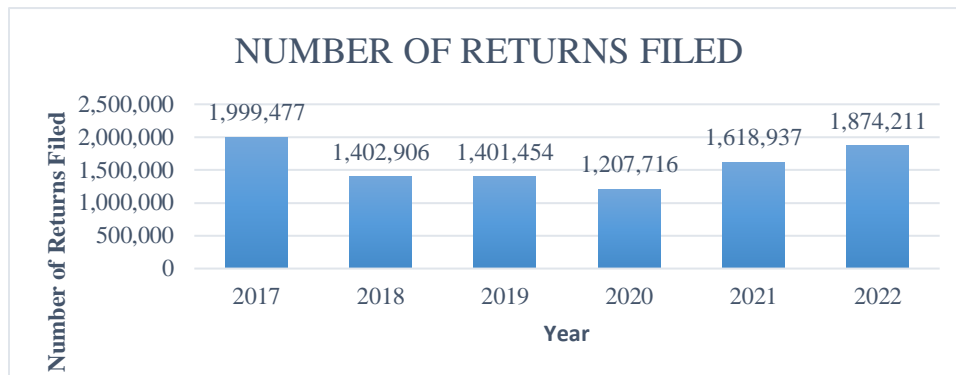


Figure 4: Number of Tax Returns Filed 2017 to 2022

The trend depicted in number of returns filed suggests that there was a decline in the number of returns filed during the peak of the Covid-19 pandemic in the year 2020. The years 2021 and 2022 show a steady increase in the number of returns filed a sign of economic recovery after the immense effects of the Covid-19 pandemic.

6.4 Tax Morale during the Covid-19 Pandemic (ZRA Tax Statistics)

The level of tax morale during the Covid-19 pandemic can be mirrored against the revenue authority's debt stock statistics. ZRA's debt stock statistics are shown in the figure 5 below.

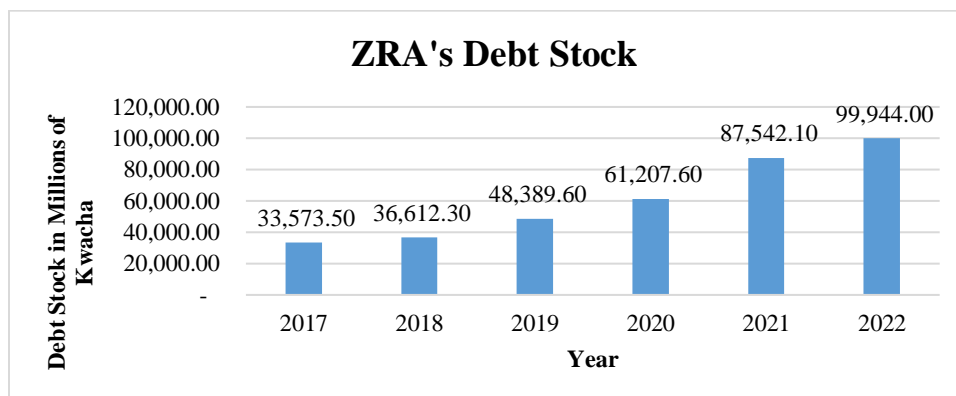


Figure 5: ZRA's Debt Stock

The debt statistics shown above reflect an ever-increasing debt stock for the revenue authority. The ever-increasing debt stock reflects the low levels of tax morale amongst tax payers and infers that taxpayers are not motivated enough to clear their dues and be complaint.

6.5 Personal Financial Constraint as Factor Affecting Revenue Collection during the Covid-19 Pandemic (ZRA Statistics)

To assess the effect of personal financial constraint on tax revenue collections this research utilized ZRA’s Value Added Tax net collections. VAT was chosen as an adequate measure of this factor as it is a consumption tax in the sense that the tax it is borne by the final consumer of goods and services. Therefore, a negative effect on the final consumer’s income will likely have an impact on the VAT net revenue collections. ZRA statistics on VAT net collections is highlighted in the figure 6 below.

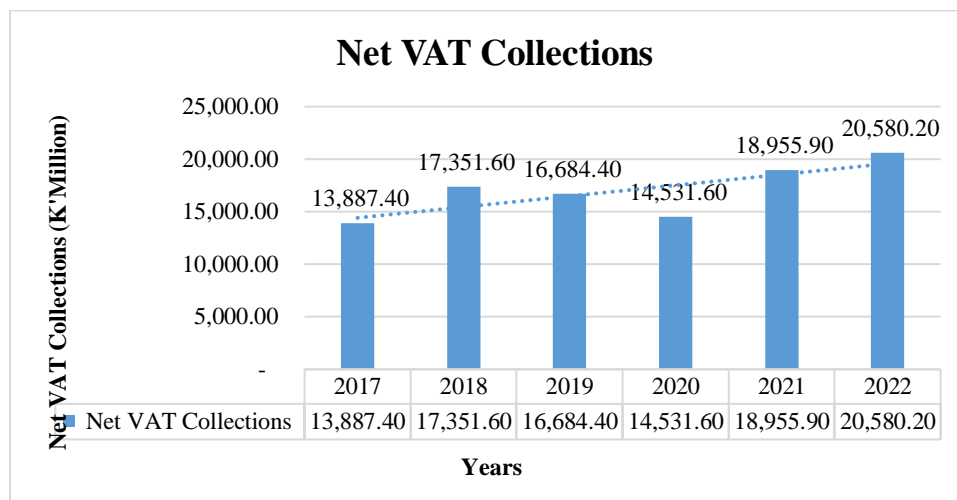


Figure 6: VAT Net Revenue Collections 2017 to 2022

As shown in the figure 5.19 above net VAT collections reduced in the year 2020 (the covid-19 pandemic year) this goes to suggest that there was a reduction in the consumption of goods and services, this reduction in consumption can be attributed to the Covid-19 pandemic which caused a reduction on individuals’ source of income.

6.6 Cost Incurred in Collecting Taxes during the Pandemic (ZRA Tax Statistics)

Data obtained from Zambia Revenue Authority research department indicated that the cost of tax collection has been on the increase for the period 2017 to 2021, whilst the cost of collection as a percentage of total revenue fluctuated between the years 2017 and 2021. This is tabulated in the table 1 below.

Table 1: Cost of Tax Collection as a Percentage of Tax Revenue

Year	2017	2018	2019	2020	2021
Cost of Collection	816.9	973.2	937.5	1,267.5	1,671.5
Tax Revenue	38,899.3	48,176.7	52,681.4	57,665.1	95,940.9
Cost of Collection as a % of Total Revenue	2.1%	2.0%	1.8%	2.2%	1.7%

Based on the results indicated in the table above it is concluded that the cost of collecting taxes during the covid-19 pandemic was on the increase.

6.7 Revenue Collections against Target Before, during and After the Covid-19 Pandemic

According to data obtained from ZRA tax statistics for the years 2017 to 2021 indicate that the revenue authority has recorded a gradual increase in total tax collections as indicated in table below. In terms of revenue target against collections the revenue authority consistently collected above revenue target in the years prior to the Covid-19 pandemic 2017, 2018 and 2019. Whilst, during the Covid-19 pandemic in the year 2020 the ZRA collected below revenue target set. In the years 2021 and 2022 after the Covid-19 pandemic ZRA collected tax revenue above target an indication that the general economy was recovering from the effects of the pandemic. Table 2 below shows the revenue collections/out turn against target for the years 2017 to 2022.

Table 2: Tax Revenue Collections against Target

Year	2017	2018	2019	2020	2021
Revenue Target	37,074.4	44,402.1	51,560.5	58,693.3	59,076.0
Revenue Out-turn in Collections	38,899.3	48,176.7	52,681.4	57,422.6	83,572.5
Variance (Target vs Out-turn)	1,824.9	3,774.6	1,120.9	(1,270.7)	24,496.5

VII. DISCUSSION OF RESULTS

7.1. Level of Taxpayer Compliance during the Covid-19 Pandemic

The level of tax compliance in this study was assessed through; tax registrations under the Block Management System, effectiveness of tax audits return filing, return payments and finally tax morale. As outlined below:

- The number of tax registrations under the ZRA's Block Management System declined slightly in 2020 this demonstrated the low compliance levels that were prevalent during the pandemic.
- Tax audits conducted during the pandemic showed clearly that the level of tax compliance was low, tax assessments arising from audits increased in 2020 in comparison to 2019. A rise in audit assessments is a clear indication of growing non-compliance.
- With regards to return filing and payments, tax compliance was deemed to be low during the pandemic year 2020, the number of returns filed during the pandemic year 2020 reduced drastically in comparison to the number of returns filed in 2019 (pre-Covid era).

7.2 Factors Affecting Tax Compliance during the Covid-19 Pandemic

Personal Financial constraints during the Covid-19 pandemic were found to have both a bearing and a ripple effect on tax compliance and revenue collection. The study found that personal financial constraints impacted greatly on consumption taxes such as VAT. The Covid-19 pandemic impacted people's livelihood and incomes this had a ripple effect on VAT collections as people's expenditure on goods and services reduced. VAT collections during the pandemic year 2020 were at their lowest in comparison to the years 2019 and 2021.

7.3 Covid-19 Pandemic and ZRA's Revenue Collections against Target

Results achieved from the study indicated that ZRA's revenue collections was immensely affected by the pandemic. ZRA consistently collected tax revenues above the target in the years 2017,2018,2019 and 2021, 2022 except in 2020 when tax revenues were below target due to harsh economic challenges caused by the pandemic.

The cost of tax collection as a percentage of total revenue was highest in 2020 as compared to the years 2017,2018, 2019 and 2021. This goes to show taxes were collected inefficiently during the pandemic.

VIII. CONCLUSION AND RECOMMENDATIONS

The aim of this research was to study the effects of the Covid-19 pandemic on tax administration in Zambia. Thus, the effects of the pandemic on tax administration were provided. The major pillars of tax administration that were largely affected were tax compliance and revenue collections.

Based on the findings of this research it is recommended that ZRA formulates strategies that will better handle such a crisis in the future. Strategies that the organization could formulate are ways of taxing the digital economy, the Covid-19 pandemic brought about new modes of doing business mostly through online platforms. Zambia Revenue Authority should therefore foster ways of collecting revenues generated through the digital economy.

REFERENCES

1. Adam, S., & Miller, H. (2021). *The economic arguments for and against a wealth tax*. s.l.: John Wiley & Sons Ltd.
2. Alink, M., & Kommer, V. V. (2016). *Handbook on tax administration*. (2nd ed.). s.l.:IBFD.
3. Angelov, N., & Waldenström, D. (2021). *The impact of covid-19 on economic activity: evidence from administrative tax registers*. Germany: The IZA Institute of Labor Economics.
4. Commission on Taxation and Welfare Secretariat. (2021). *Overview of economic principles and fundamentals of a tax system*. s.l.: Commission on Taxation and Welfare Secretariat.
5. DiJohn, J. (2010). *The political economy of taxation and state resilience in Zambia since 1990*. s.l.: Crisis States Research Centre.
6. Dreisbach, T. (2019). *Creating an electronic tax administration system in Zambia*. s.l.: Global Delivery Initiative.

7. Ebeke, C., Mansour, M., & Graziosi, R. G. (2014). *The power to tax in sub-saharan Africa: LTUs, VATs, and SARAs*. s.l.: s.n.
8. Gupta, R. (2016). Filling the land tax void: New Zealand. *Ejournal of tax research*, 14(3), 719-740.
9. Handema, M., & Haabazoka, L. (2020). *The effect of capital structure management on commercial bank financial performance: A case of the Zambian banking sector*. In: Popkova, E., Sergi, B. (eds) *Scientific and Technical Revolution: Yesterday, Today and Tomorrow*. ISC 2019. Lecture Notes in Networks and Systems, vol 129. Springer, Cham. https://doi.org/10.1007/978-3-030-47945-9_183.
10. Kabinga, M., Dr. Jörg, A. S. J., & Kiprotich, E. T. (2016). *Principles of taxation*. s.l.: Jesuit Centre for Theological Reflection.
11. Kloeden, D. (2011). *Revenue administration reforms in anglophone Africa since the early 1990s*. s.l.: International Monetary Fund.
12. Larina, L.B., Postnikova, D.D., Ageeva, O.A., & Haabazoka, L. (2021). *The scientific and methodological approach to provision and evaluation of the digital economy's global competitiveness*. Popkova EG, Krivtsov A., Bogoviz AV The Institutional Foundations of the Digital Economy in the 21st Century. Berlin, Boston: De Gruyter, pp.173-182.
13. Mikhaleva, O. L., Pavlova, K., Charikov, V., & Aseev, D. (2018). Tax administration of vat: Impact of changes. *SHS Web of Conferences*, 62.
14. Moore, M., 2014. *Revenue reform and state building in anglophone Africa*. s.l.: ICTD.
15. Mpofo, F. Y., & Moloji, T. (2022). *Direct digital services taxes in Africa and the canons of taxation*. s.l.: s.n.
16. Mwanaumo, E.M., Chisumbe, S., Mbewe, N., Mambwe, M., & Haabazoka, L. (2020). *Suitable infrastructure projects for public private partnerships in Zambia*. In: Popkova, E.G., Sergi, B.S., Haabazoka, L., Ragulina, J.V. (eds) *Supporting Inclusive Growth and Sustainable Development in Africa - Volume I*. Palgrave Macmillan, Cham. https://doi.org/10.1007/978-3-030-41979-0_19.
17. Nalishebo, S., & Halwampa, A. (2014). *Uncovering the unknown: An analysis of tax evasion in Zambia*, Lusaka: Zambia Institute for Policy Analysis and Research.
18. Odd-Helge Fjeldstad - Chr. Michelsen Institute. (2007). *Revenue authorities: Experiences from sub-saharan Africa*. s.l.: SEAPREN Conference on Poverty Policies and Budgetary Processes.
19. P.M.R.C. (2020). *Taxation in Zambia; Achievements and challenges, Lusaka, Zambia: Policy Monitoring and Research Centre*.
20. Piper, J. (2014). *Certainty in tax*. s.l.: The Association of Chartered Certified Accountants.
21. Sekiraqa, A., Sekiraqa, E., Sekiraqa, V., & Ahmeti, S. (2021). *The impact of covid – 19 on collecting of tax revenues in Kosovo*. s.l.: University of Prishtina.
22. United Nations Economic Commission for Africa. (2019). *Tax administration in Africa*. s.l.: UNECA.
23. Yamane, T. (1967). *Statistics, an introductory analysis*. (2nd ed.). New York: Harper and Row.
24. Z.R.A. (2023). *Zambia revenue authority*. [Online]. Available at: <https://www.zra.org.zm/about-us/>. [Accessed 11 February 2023].
25. Zambia Revenue Authority. (2020). *Annual report*. s.l.: Zambia Revenue Authority.