

Draft version, not yet officially authorized for quoting.

Musonda Kabinga, Aaron Yambani SJ

Zambia I: Introduction

Compiled and ordered notes for future use

Joerg
[Wählen Sie das Datum aus]

Draft version, not yet officially authorized for quoting.

| | | |
|-----|-----------------------------------------------|---|
| 1 | Preface | 2 |
| 2 | Introduction | 3 |
| 2.1 | Who Pays Taxes? | 3 |
| 2.2 | Why Tax Policies are introduced | 4 |
| 2.3 | What Constitutes a Fair Tax..... | 5 |
| 3 | Revenue collection and revenue spending | 6 |
| 4 | Literaturverzeichnis..... | 7 |

1 Preface

In the Zambian society, the subject of taxation is increasingly being debated by the public, civil society organisations, Members of Parliament (MPs) and the media to mention but a few. For instance, at the highest level of decision making, Zambia's 6th Republican President His Excellency Edgar Lungu during his Inaugural Speech at Heroes Stadium on Sunday 25th January 2015 argued that "government desires to ensure that companies pay the right taxes."¹ Further, the former Finance Deputy Minister, Mr. Miles Sampa had observed that "some multinational companies mostly, mining companies are using legal tax avoiding measures to escape US\$ 2 billion a year in taxes."² It is without doubt that the subject of taxation in Zambia is of great importance. Therefore, this research timely and will significantly contribute to the debate on taxation.

More generally, higher levels of poverty in Zambia are a result of a narrow tax structure that limits government revenue collection and subsequently reduces public spending. As a result of reduced public spending on public goods and public services this has contributed to higher levels of poverty and increasing levels of wealth inequalities in Zambia.

¹ See, e.g. <http://uk.reuters.com/article/uk-zambia-president-mining-idUKKBN0KY0HE20150125>

² Quoted in (Kabinga, Enhancing Tax Revenue Collection in Zambia - Promoting Sustainable Development and Eradicating Poverty, 2015, p. 2)

Draft version, not yet officially authorized for quoting.

All that motivated the Jesuit Centre for Theological Reflection (JCTR) to undertake this study.

Doing that, JCTR as a "Social Centre" for the Society of Jesus (Jesuits) in Zambia and Malawi, works together with other Jesuit social centres in Europe and Africa. This includes identifying areas of common concern between European and African countries, developing common tools of examination, common goals for advocacy and campaigning cooperation in order to address and advance issues discovered. To this effect, the JCTR, Jesuitenmission in Germany and the Jesuit Hakimani Centre in Kenya identified the area of taxation as a common problem in the three countries.

The focus is on the question of how a just tax system could contribute to the reduction of the increasing wealth gap and governmental dependence on external financing in the Zambian economy. The research presented, titled "*Tax Justice and Poverty, Narrowing the Wealth Gap and Reducing Governmental Dependence from External Financing*", will highlight that, if Zambia was able to collect adequate taxes, all would profit greatly. The increasing wealth gap would stop growing leading to significant decline in poverty and a reduction in government's dependence on external financing.

To put it differently: This research/study will prove that if more tax revenue was raised in a fair manner the following will happen: government would have more revenue to address poverty, reduce wealth inequality and reduce dependence on external financing. Further, the tax burden will evenly be distributed and this would enable individuals/taxpayers have more savings and improve their living standards.

2 Introduction

Taxation is a complex subject that presents diverse views among different groups or stakeholders in any society. To begin with, discussions on the subject may range from who actually pays taxes, why governments introduce taxes, what constitutes a fair tax and utilization of tax revenues.

2.1 Who Pays Taxes?

We all pay taxes on a regular basis, for example when we purchase goods or services or receive income from different sources. On certain products, governments levy a consumption tax and consumers, when purchasing such

Draft version, not yet officially authorized for quoting.

products, end up paying tax. Income received from different sources is often taxed under different categories of taxes.

2.2 Why Tax Policies are introduced

Globally governments introduce tax policies for different reasons. However, the most commonly advanced reasons for initiating tax policies include; increased revenues for development undertaking, reducing disparity between the rich and poor thereby redistributing wealth and curtailing certain activities.

When states impose taxes for purposes of increasing revenue collections, the ultimate objective is to ensure that sufficient revenues are generated to fund development programmes. All development undertakings require adequate revenues to finance and as such taxation enables states to accumulate the much needed revenues to invest into development projects. No society is equal where all human beings have the same wealth. However, if the wealth gap is so wide, it presents problems that maybe complex to deal with. A very unequal society guarantees crime and other illicit deeds committed in a bid to bridge the huge wealth gap. In this case tax policies may be introduced to reduce the disparity between the poor and rich. For instance, the poor maybe taxed less to enable them afford the cost of living and the rich maybe taxed more in order to raise sufficient revenues to invest in public goods for all to benefit. A tax policy may also be used to restrain the undertaking of certain activities. Governments may introduce a tax on the purchase of cigarettes in a bid to discourage individuals from smoking. There is however, an argument that increasing on tax for certain goods and services might not curtail their provision but consumers actually increase the budgetary allocation to their consumption.

More specifically and from an African context, there have been concerns that taxes should be imposed on foreign products in order to indirectly promote local products. One conversation partner from the Dairy Farmers Association of Zambia observed in a communication to this research that

there is a 10% tax on milk on the shelf, hence, the processor has to negotiate and buy milk at a very low rate on the farm gate. The processor pays less to the farmer in order to service the debt. This is the reason milk in Zambia is the most expensive. There is a condition from the World Trade Organization that we should not discriminate against foreign products in the

Draft version, not yet officially authorized for quoting.

name of fair trade. This means no selective imposition of taxes on imported products. However, there is no fair trade.

Tax policies are never static but change every time in line with priorities of governments. Further, changes in the social and economic environment often foster changes in tax policies. While tax policy changes are unavoidable due to changes in government priorities, social and economic systems, the issues of tax equity and tax efficiency are highly regarded whenever tax changes are considered.

2.3 What Constitutes a Fair Tax

There is no universally agreed standard of what constitutes a fair tax. There are divergent views on the theme of fair taxation. However, there are parameters that are often considered when discussing the issue of fair taxation. Jared Barnstein argues that a fair tax should; be progressive; those with more income pay a larger share of it in taxes, further, a fair tax should not exacerbate inequality by giving preferential treatment to the wealthy and lastly does not disproportionately benefit those who are already doing the best at the expense of the rest.³

Reiterating that which has been said already more extensively in (Kabinga & al., 2016), The Tax Justice Network Africa argues that a tax system should have three characteristics for it to be considered as fair. These include

- Fairness, where tax payers with similar characteristics should all be subject to the same tax burden (horizontal equity). Those with higher incomes should bear a heavier tax burden as a share of income than those with less ability to pay.
- Transparency: Taxpayers should have a clear understanding of (a) the legal basis for their tax liabilities, (b) the amounts of revenue collected and from whom, and (c) how tax revenue is used.
- Lastly, Inclusiveness: there should be scope for tax payers to engage actively with the government around both revenue and expenditure issues. This may involve creating space for citizens and civil society

³ Barnstein, J. (2012, April 17). *On the Economy*. Retrieved from <http://jaredbernsteinblog.com/what%E2%80%99s-fair-five-or-six-principles-of-tax-fairness/>

Draft version, not yet officially authorized for quoting.

groups to participate directly in tax assessment processes or creating open fora for citizens to engage with local governments, tax authorities and national MPs around revenue and tax budgeting.⁴

Different ideologies, scholars and experts in sociology, economics have different views about fair taxation. However, though there is no clearly agreed definition of a fair tax, inclusiveness and fairness are highly echoed in establishing what determines a fair tax.

3 Revenue collection and revenue spending

However, for Zambia, it has been observed that there is a strong correlation between revenue collection, spending and expenditure. The protection of the poorest, including through basic public spending, is an overarching concern. The fairness of a tax system cannot meaningfully be assessed in isolation from the spending it finances. Persuading taxpayers of the value of the public spending financed by the taxes they pay, including by improving the management and quality of that spending, can further bolster trust in and compliance with the tax system. Fiscal indiscipline and waste from successive governments is partly responsible for tax payers not complying with the payment of tax! Who would want to willingly pay his/her hard earned money as tax if they know that their money will not be used for social services and common good but it will instead enrich politicians-poor a few years ago, now living like dollar millionaires and enjoying life on behalf of tax payers! Who would want to pay tax if tax revenue will be spent on: buying Ministers, MPs, Civil servants expensive personal-to-holder luxury vehicles, free fuel, satellite phones, free air time, per diem or be used to charter executive jets for \$300,000 and so on and so forth.⁵

There is a general observation that service delivery influences tax compliance. For example:

⁴ See Tax Justice Network – Africa (Ed.) (2010) Building a Fair, Transparent and Inclusive Tax System in Sierra Leone, p. 10

⁵ See, for example, Nkonde, Kalima (2015) Zambia needs change in tax culture: Is the Post tax probe equitable? Retrieved from <https://www.lusakatimes.com/2015/12/21/zambia-needs-change-in-tax-culture-is-the-post-tax-probe-equitable>.

Draft version, not yet officially authorized for quoting.

“Rwanda is one of the few exceptions, where tangible services are directed and delivered at national level. The government in Kigali taxes everything it can, while at the same time ensuring a low level of corruption. The system works because most people are confident that their taxes are paying for public goods. Fear may also be a factor. Most African governments do not have the capacity or political will at a national level comparable to that displayed by the state in Rwanda.”⁶

However, given the discussion in the planning phase of this research and advocacy project, we will, due to the lack of resources and for the time being, refrain from examining tax spending and rather focus on revenue collection, especially on tax policy design, tax laws and tax administration (Tax Justice & Poverty, 2013).

4 Literaturverzeichnis

Kabinga, M. (2015). *Enhancing Tax Revenue Collection in Zambia - Promoting Sustainable Development and Eradicating Poverty*. Retrieved from JCTR Policy Briefs: http://www.jctr.org.zm/images/stories/Tax_study/TAX_POLICY_BRIEF_-_FINAL_FOR_PRINT-Musonda.pdf

Kabinga, M., & al. (2016, March 14). *Principles of Taxation*. Retrieved from Tax Justice & Poverty: <http://tinyurl.com/tjp-I5principles>

Tax Justice & Poverty. (2013, May 13). *Project Concept*. Retrieved from Tax Justice & Poverty: <http://tinyurl.com/tjp-concept>

1.1 ⁶ **Duncan Green.**(2013). *Africa’s tax systems: progress, but what is the next generation of reforms?* <https://oxfamblogs.org/fp2p/africas-tax-systems-progress-but-what-are-the-next-generation-of-reforms/> Retrieved: 3rd February 2016.