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Zambia VII: Results

Compiled and ordered notes prepared for future use.

Joerg
[Wählen Sie das Datum aus]

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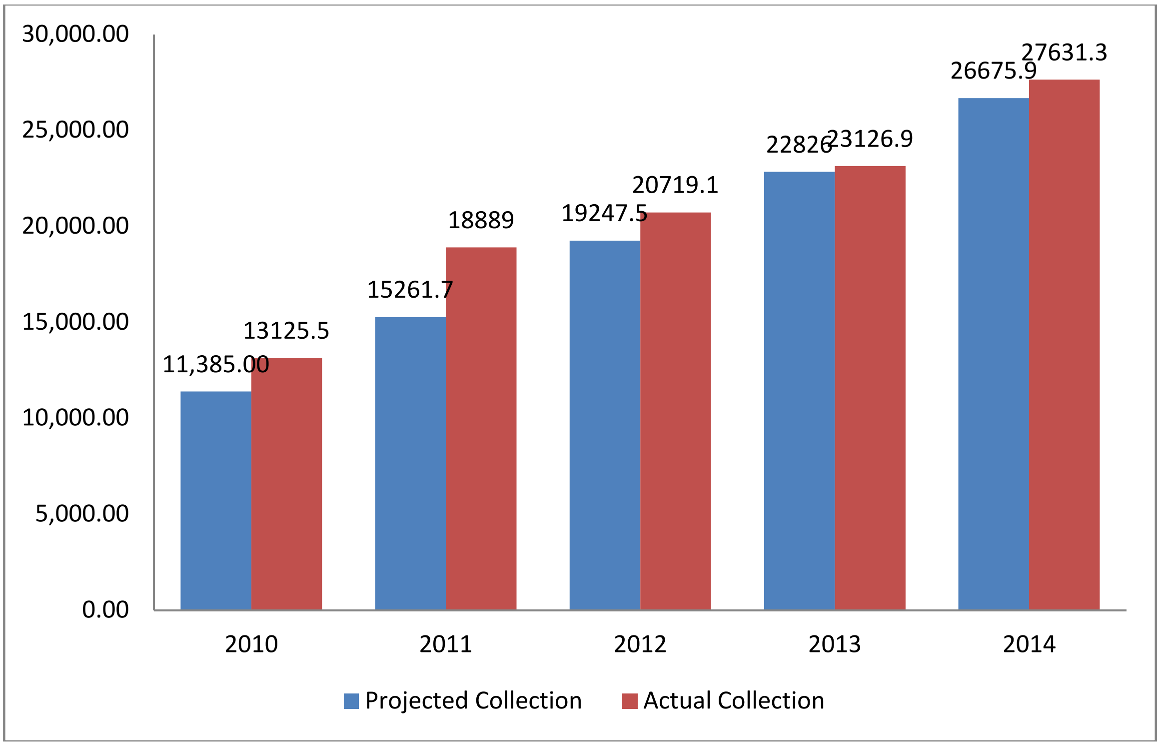
1 Revenue collection related results

1.1 Tax Revenue Trends

Each year, the Government projects the amount of revenue that it intends to collect. The agreed targets are ratified by Parliament and are passed on to ZRA for implementation. Since 1994 when ZRA was created, collection of tax revenues has been above target for most years; when using 2010 as starting point, revenue increased by 76.4% in 2013 (Nhekairo, 2014, p. 9)

Graphic 1 Development of projected and actual revenue collection , in million Kwacha, 2010-2014



Source 1 (Zambia Revenue Authority, 2015)

1.2 Revenue from tax categories

When looking at the revenue collected from defined tax categories below in Table 2, one notes immediately that Income taxes continue to be the major source of tax revenue accounting for more than 50 percent of the total tax revenue collections.

Table 1 Tax Revenue Performance 2014 (ZMW millions)[1]

Tax Types	Actual Outturn	Target	Variance of actual vs target	Percentage variance of target	Percentage of GDP (2010 base)
Total Revenue	**27,631.3**	**26,675.9**	**955.4**	**3.6%**	**16.6%**
I. Tax Revenue	**27,604.2**	**26,642.8**	**961.4**	**3.6%**	**16.6%**
A. Income Taxes	**13,225.1**	**13,798.0**	**(572.9)**	**(4.2)%**	**7.9%**
1. Company Tax	3,487.8	4,723.5	(1,235.8)	(26.2)%	2.1%
Non Mining Company Tax	2,014.3	2,093.8	(79.5)	(3.8)%	1.2%
Mining Company Tax	1,473.5	2,629.7	(1,156.2)	(44.0)%	0.9%
2. PAYE	6,426.9	5,248.3	1,178.6	22.5%	3.9%
3. Withholding Taxes & others	1,543.6	1,583.5	(39.9)	(2.5)%	0.9%
4. Mineral Royalty Tax	1,766.9	2,242.7	(475.8)	(21.2)%	1.1%
B. Excise Taxes	**2,853.9**	**3,113.9**	**(260.0)**	**(8.3)%**	**1.7%**
1. Excise Duties	1,994.3	2,163.8	(169.4)	(7.8)%	1.2%
2. Rural Electrification Levy	45.0	38.0	7.0	18.5%	0.0%
3. Fuel Levy	789.7	861.0	(71.4)	(8.3)%	0.5%
4. Carbon Tax	24.9	51.1	(26.2)	(51.3)%	0.0%
C. VAT on domestic goods	**3,157.1**	**404.6**	**2,752.5**	**680.3%**	**1.9%**
D. Trade taxes	**8,368.1**	**9,326.3**	**(958.3)**	**(10.3)%**	**5.0%**
1. VAT on imports	6,396.6	6,918.3	(521.7)	(7.5)%	3.8%
2. Customs Duty	1,948.9	2,204.6	(255.7)	(11.6)%	1.2%
3. Export Duties	22.6	203.5	(180.9)	(88.9)%	0.0%
Export Duty on Scrap metals	0.2	0.0	0.20	100.0%	0.0%
Export Duty on Cotton seed	0.0	0.0	0.00	0.0%	0.0%
Export Duty on Copper Concentrate	22.4	203.5	(181.1)	(89.0)%	0.0%
II. Non Tax revenue	**27.0**	**33.1**	**(6.0)**	**(18.3)%**	**0.0%**
Motor Vehicle Fees	27.0	33.1	(6.0)	(18.3)%	0.0%

Source 2 (Zambia Revenue Authority, 2015, p. 27)

One notes also the disbalance between income tax collected from formal labour in form of PAYE (PIT) and income tax collected from businesses and corporations (CIT), which are almost equal and not really significantly higher if the revenue from Mineral Royalty is added. This, in turn raises questions on the background of the Principle of Ability to Pay, which is

[1] Differences in the total amount of revenue between this table and graphic 1 can be explained by adjustments done to the date base after publication. Since (Zambia Revenue Authority, 2015) is most up to date, those figures regarding the total revenue collections are more adequate.

prominent among taxation principles and eminent for a taxation which can be called just and fair (see I/VI).

This reality is a reflection of an economy under stress as excessive dependence on tax revenue from wages implies a narrow tax base. Ideally taxes from trade and consumption would be indicative of a robust economy. It is therefore better to rely more on the later than the former.

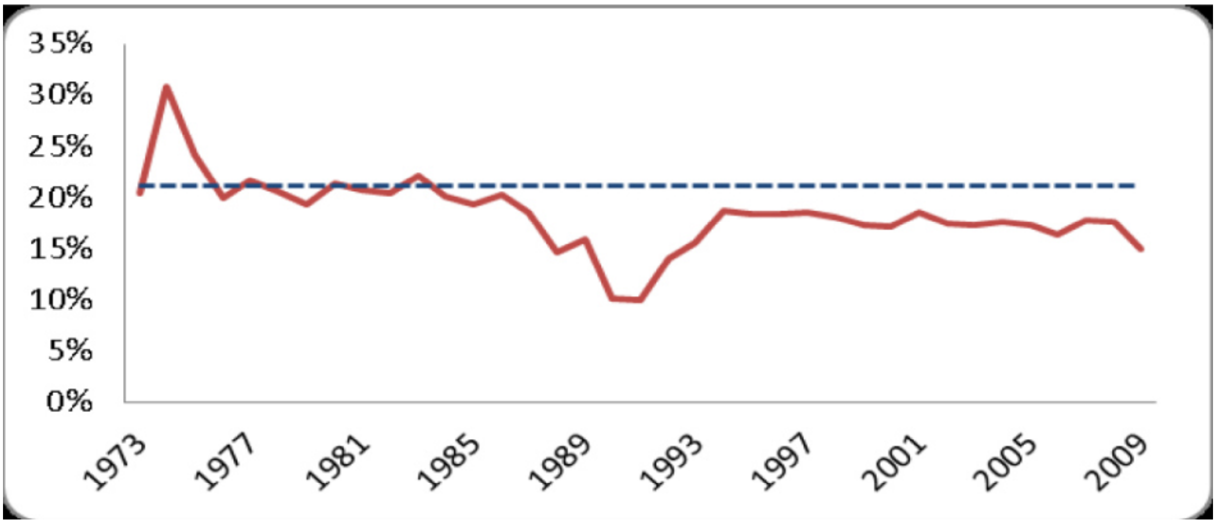
In 2014, tax revenue rose because of the good performance of PAYE and domestic consumption, while trade taxes, company taxes, withholding taxes, taxes on the mining sector and excise revenue remained under target. The latter is due to the implementation of various regional trade protocols such as those under SADC and COMESA (Zambia Revenue Authority, 2015, p. 6+26).

1.3 Tax revenue in relation to GDP

Tax revenue collection of a country should increase if the tax base, i.e. economic activity and resulting income and consumption, is rising. A simple way to measure this is to look at the ratio of total tax revenue to GDP.

While the ratio was between 20 and 30% between the 1970s and 1990, the following graphic reveals a drop in the 1990s which is why tax reforms and the reform of ZRA into a semi-autonomous agency have been put into place in the Mid-1990s (see II/3).

Graphic 2 Tax revenue to GDP ratio 1973-2009



Source 3 (Nhekairo, 2014, p. 11)

Obviously, the situation improved since, but the tax revenue to GDP ratio continued to remain below the rate of 20% ever since until present days:

Table 2 Total revenue as share of GDP in 2014 and 2013

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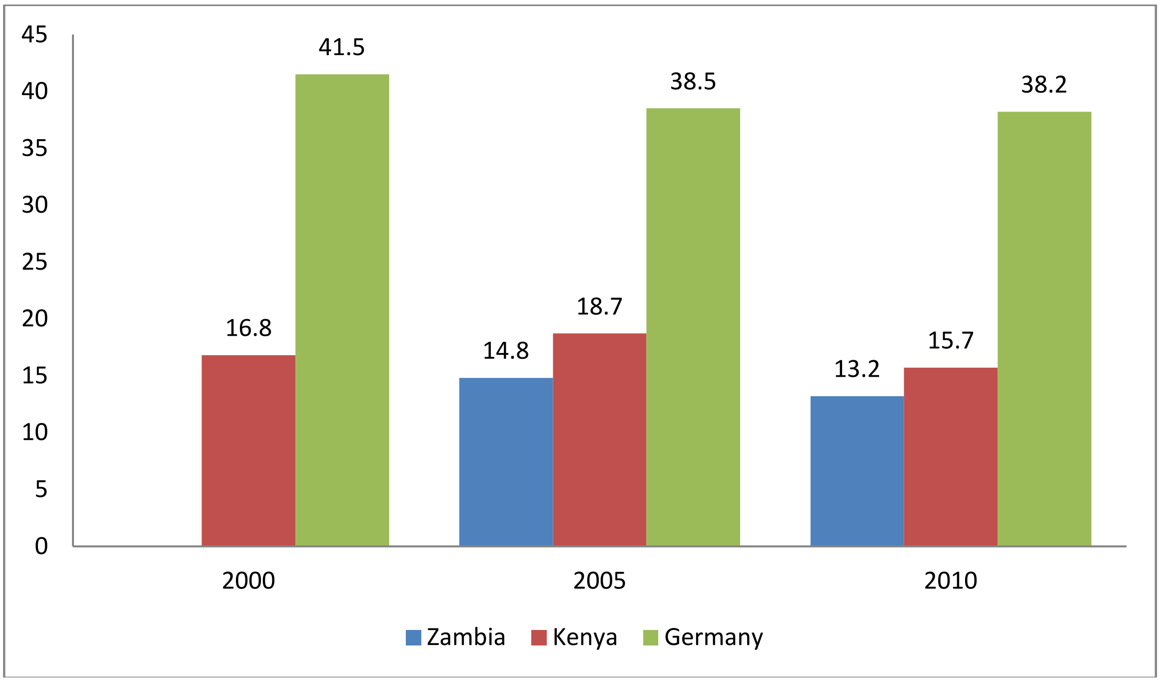
Tax Type	Percentage of GDP in 2014	Percentage of GDP in 2013
Income Tax	7.9%	8.0%
Company Tax	2.1%	2.0%
Pay As You Earn (PAYE)	3.9%	4.0%
Withholding Tax	0.9%	0.9%
Mineral Royalty	1.1%	1.2%
Domestic Goods & Services	3.6%	2.4%
Excise Duty	1.7%	1.6%
Domestic Value-Added Tax (VAT)	1.9%	0.8%
Trade Taxes	5.0%	5.5%
Import VAT	3.8%	4.3%
Import Duty	1.2%	1.2%
Export Duty	0.0%	0.0%
Total Revenue as % of GDP	16.6%	16.0%
GDP	166,533.1	144,722.4

Source 4 (Zambia Revenue Authority, 2015, p. 29)

When comparing Zambias tax-revenue-to GDP with the two other countries participating in this research, Zambia ranks third:

Graphic 3Tax quota & tax/SSC quota for Germany, Kenya and Zambia 2000-2010[2]

[2] The graphic illustrates tax and SSC collection in relation to national GDP. For Kenya and Zambia (where SSCs can yet be neglected in its significance), only the tax quota is given, for Germany tax and SSC contribution quota. The statistical data is taken from a Website provided by the Wirtschaftskammer Österreich, the only website which could be found offering relative updated and comparable data of all three countries under https://www.wko.at/Content.Node/Interessenvertretung/ZahlenDatenFakten/Laenderprofile_weltweit.html



Zambias low ranking is confirmed by using other indicators, e.g. the Total Tax Rate:[3] According the joint World Bank and *PwC* Report *Paying Taxes 2016*, Zambia has a Total Tax Rate of 18.6%, which makes the country among those with the lowest tax rate in Africa. In contrast Kenya and Germany have a total tax rate of 37.1% and 48.8% (World Bank Group; PwC, 2015, p. 83).

1.4 Efficiency and equity

Efficiency and equity are also important principles with which to assess and evaluate a taxation system (see I/VI). For there the question: How effective is tax system? Chileshe and colleagues limit this to the discussion on how taxes influence behaviour in terms of making choices (2011, p. 34ff.). For example, the tax system may influence the choice of products to consume, whether to operate in formal economy or in the informal economy and choice of location for investment. As the discussion in chapter V+VI detailed, there are deficits when it comes to the informal sector and when it comes to the taxation of private, corporate and criminal wealth. In both "difficult to tax" areas, of course, different approaches for solving the relevant problems are called for: Education for those in informal economy, creating more transparency in the case of private, corporate and criminal wealth holder, in both cases an improved mix of more registration, more ITC technology and especially and quantitatively and qualitatively more and better checks.

If one looks at the equity of a taxation system, the question boils down to the question whether everybody contributes in accordance to his or her

[3] The Total Tax Rate is the measure of tax cost, the total of all taxes, borne as a percentage of commercial profit (World Bank Group; PwC, 2015, p. 14)

ability to pay, i.e. whether the poorer/low income pay relatively less than the wealthy/high income households. This is not the case because of the comparatively low revenue from MNEs, the absence of wealth taxation and the relatively high burden upon low and middle income households under the PAYE system (Chileshe, Manley, & al., 2011, p. 40ff).

1.5 Tax gap and tax arrears

The previous now leads to a closer look at the tax gap in Zambia which is the portion of taxes eluding government every year (Nalishebo & Halwampa, 2014, p. 21ff.). There are various reasons for it:

- The structure of the economy and its "difficult-to-tax" areas, such as peasant agriculture, informal industry, household production and non-transparent private, corporate and criminal wealth holder.
- The lack of adequate legal instruments nationally and internationally
- The lack of adequate auditing, investigating and enforcing institutions
- The lack of taxpayers' morality.

As has been illustrated especially in chapter VI, there are big gaps when taxing PAYE from self-employed and in case of mixed income (VI/5.2), regarding MNEs (VI/5.4) and regarding the informal economy (VI/5.6).

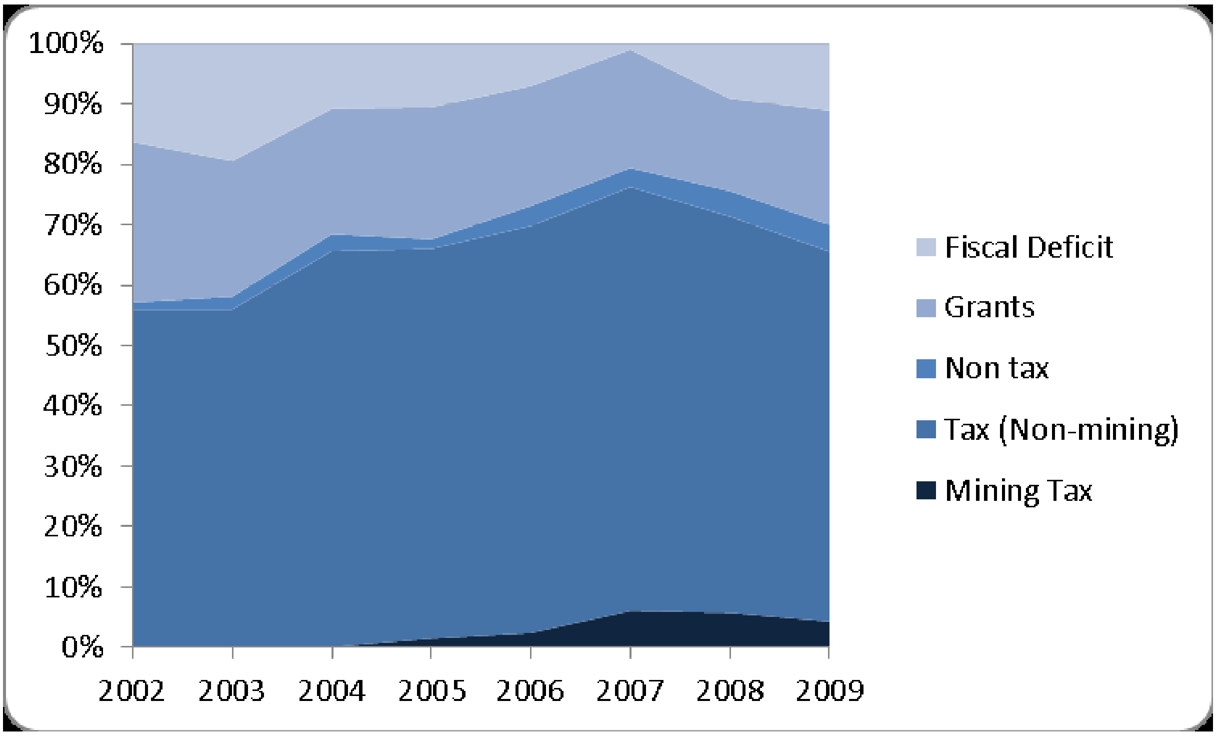
One has also take into account the considerable amount of tax arrears because of non-compliance or the inability to pay (VI/6).

One should check, however, whether the high amount of arrears in the area of business taxation is also due to the inability of businesses to pay or even insolvency and bankruptcy – collecting taxes is not compensating for the loss of jobs.

1.6 Continuing need for other sources of financing

Even though the share of tax revenue regarding the coverage of public spending is improving over the years, Zambia does not yet succeed to cover its expenditure by collecting taxes and when looking at the next graphic it is obvious how little the biggest industry of the country contributes to the when compared with other tax revenue:

Graphic 4 Composition of central government revenue

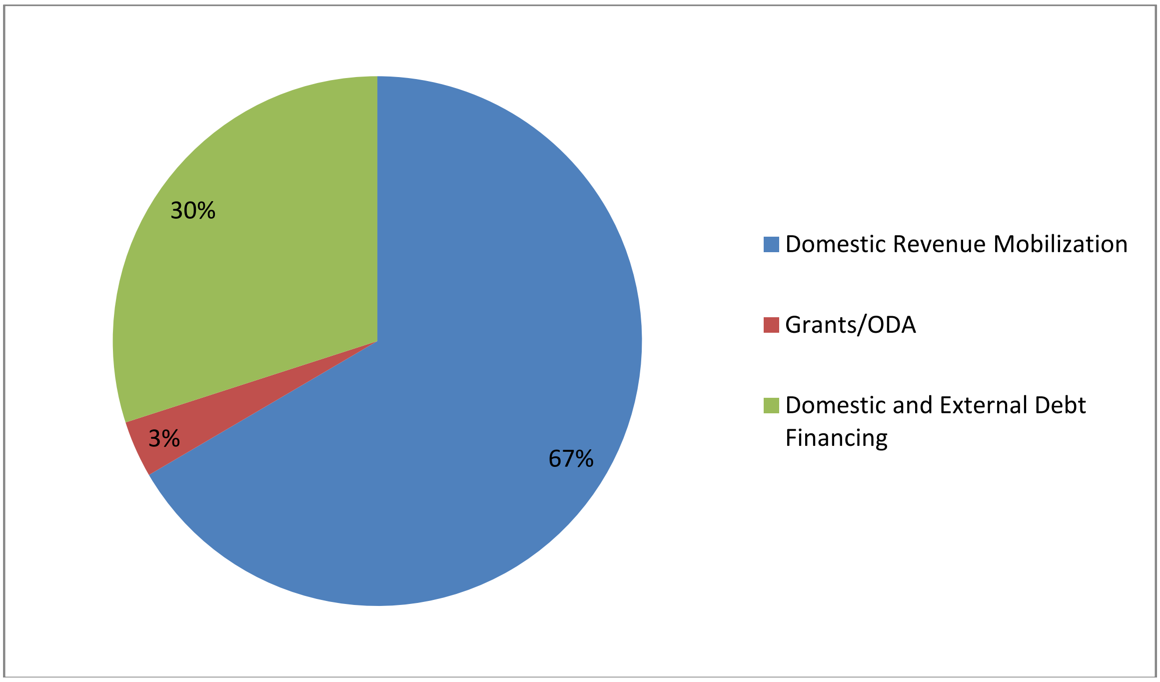


Source 5 (Chileshe, Manley, & al., 2011, p. 31)

And: Given the volatility of global commodity markets the hope that revenue generated with mining, without changes in tax laws and tax law enforcement will increase revenue by an sheer increase in prices seems to be over-optimistic (see below, 2.3.1). Volatility of the global economy will also impact upon the transferral of remittances by Zambian expats, see below, 6.5)

The budget deficit needs to be made up by ODA, conditional or unconditional grants and – last not least – money raised at the external financial markets, e.g. bonds. Currently, in 2017, the shares are as follows:

Graphic 5 Composition of the 2017 Budget

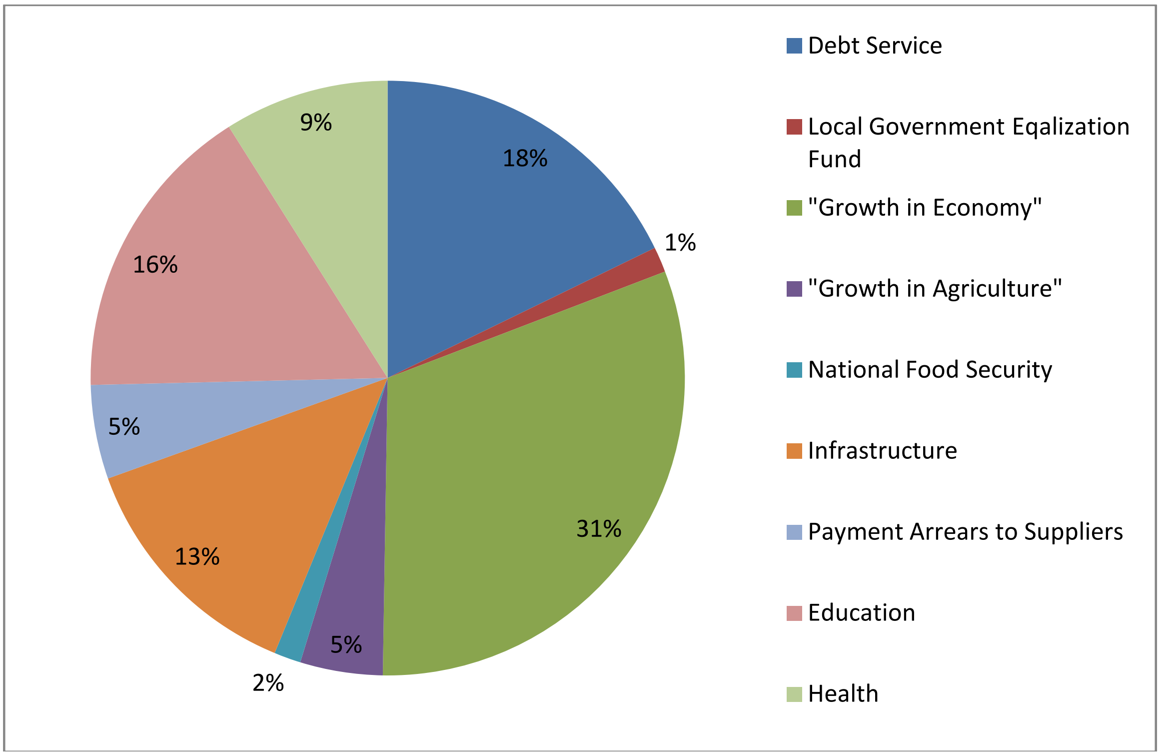


Source 6 (Mutati, 2016)

1.7 Government Spending 2017

Finally, a look at government spending, especially the share which is needed to be spent on interest on loans and repayment and in other areas which might be tax related: The following figures are taken from the Minister of Finances 2017 Budget Speech:

Graphic 6 Government spending 2017, selected sectors (in K billion)



Source 7 (Mutati, 2016, p. 15ff.)

Three issues shall be pointed out and be commented upon:

First: The second largest sub-budget is domestic and external debt service, bigger than the budget of education, which is admitted by the minister to be the crucial entry point to eradicate poverty (Mutati, p. 9).

Second, the largest budget, namely 20 billion Kwacha, are earmarked "to support growth in the key sectors of the economy" (ibid, p. 16), without detailing further what is meant by that. Suspicions are, that it includes tax presents and other concessions to big business.

Third, the Local Government Equalization Fund is a solidarity mechanism between central government and municipalities. In a formula based allocation, equity and transparency should be safeguarded and municipalities should be enabled to advance local development projects.[4] Since the system is new (2015), it is a seminal system comparable to the German Financial Equalization Schemes between states and municipalities.

1.8 Conclusion

Although ZRA has been exceeding targets on revenue collection, there is growing concern whether some Multinational Corporations (MNCs) especially mining firms are paying the correct amounts of tax. Zambia's Finance Minister has observed that only two mining companies were paying tax under Company Income Tax (CIT) largely on account of tax planning schemes such as transfer pricing, hedging and trading through "shell" companies which are not directly linked to the core business.[5]

Tax presents and lenient treatment of MNCs means that the state has to look for other sources of tax revenue if not from external financing. The other sources of tax are indirect such as value added tax which is easy to administer, but hurts the poor (see below 4.2.2).

The latter is even more outrageous since there are tax rebates for mining corporations in Zambia. This year after reduction of mineral royalties, mining firms have begun receiving tax VAT refunds to the tune of 600 million United States Dollars[6].

[4] State to set up local govt fund. (2014, October 15). In: Daily Mail. Retrieved from https://www.daily-mail.co.zm/?p=7829

[5] Lusakatimes.com (2015, February 26). *Only Two Mining Companies Were Paying Tax Under the Previous Tax Regime-Chikwanda*. Retrieved April 21, 2015 from http://www.lusakatimes.com/2015/02/26/two-mining-companies-paying-tax-previous-tax-regime-chikwanda/

[6] http://www.lusakatimes.com/2015/06/30/mines-begin-receiving-vat-refunds/

To make up for lost revenue, government either increase indirect taxation or borrows externally. Even with external borrowing, the share of direct taxes as a proportion of all revenue still reduce.

2 Revenue deficits and losses

Talking about "difficult to tax" areas, nowadays and for the context of developing countries, normally three areas are mentioned: The informal economy, MNEs and IFFs. For this research, also private and criminal wealth merit explicit mentioning, even though many aspects of it are included already within the broad IFF concept.

2.1 Trade taxes

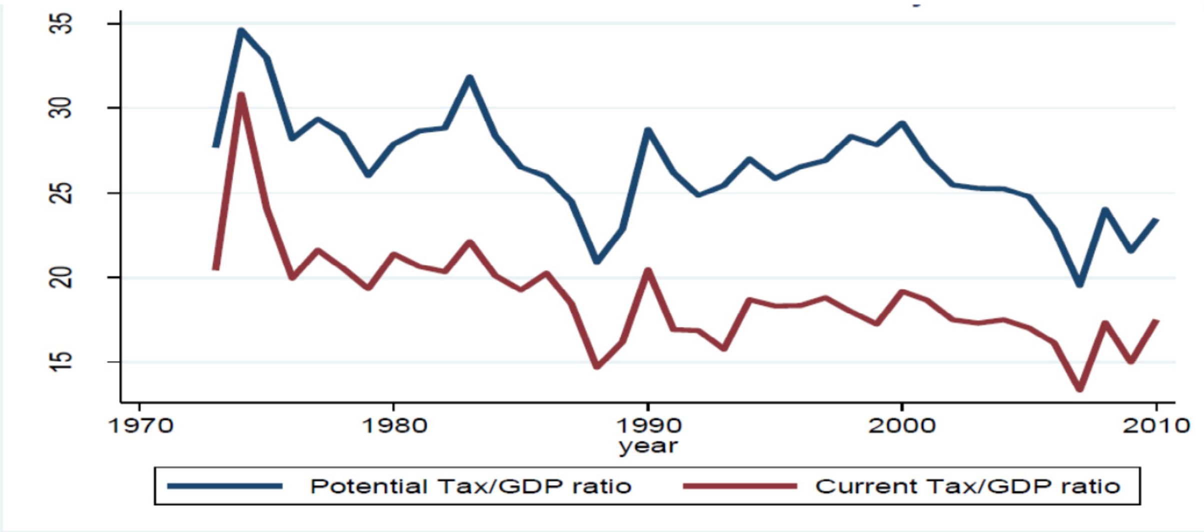
Until the turn of the millennium, income from trade taxes were the bulk of revenue income and it is only then that the shift occurred to income collected from formal labour and consumption tax (Chileshe, Manley, & al., 2011, p. viii). Since then, the amount is declining.

As the discussion surrounding the EPA agreement with the Eastern African Union and the EU illustrate, Zambia has to pay attention here: If they, too, enter into an EPA with the European Union, then even less trade taxes will be paid. Here, Zambia has to be careful it does not risk the benefits which it has under the EBA arrangements without obtaining anything equal in return. However: as the Zambian Embassy wrote to the German research, Zambia aims to enter into an EPA (see GER/W/II/4.1), which, all other things being equal, would require new taxation elsewhere in order to compensation further trade tax losses.

2.2 Informal economy

Due to the high informality in the Zambian economy, there is, at least in theory, a lot of taxes evaded:

Graphic 7 Tax evasion due to informality



Source 8 (Phiri & Nakamba-Kabaso, 2012, p. 18)

Therefore there is widespread agreement, that the current tax regime for the informal sector needs reform. But: At the same time it is to be borne in mind that the informal sector is a job and employment generating engine for Zambias growing population. This beneficial element should not be endangered by any taxation effort. The debate on taxation should therefore focus (a.) on the wider development implications of informal sector taxation, as well as (b.) the political and institutional barriers to improved performance.

However: The wider implication of the informal sector and its contribution to development and employment, its risks for low-pay, vulnerability, bad labour conditions and exploitation is being done elsewhere, e.g. the ILO[7], UNECA[8], the ADB[9] or the Africa Research Institute[10].

Due to its focus on tax, recommendations of this project will be focussed below upon taxation issues in the stricter sense.

2.3 IFF-components and knowledge

Regarding poor countries, IFFs gain more and more attention and Zambia is no exception. Once more it shall be alerted towards the difference between legal and legitimate tax avoidance, illicit aggressive tax avoidance and illegal tax evasion and tax fraud, as defined in the introductory part (I/IV/6.2. of this research) and chapter IV/5.1 of this

[7] http://www.ilo.org/addisababa/whats-new/WCMS_377286/lang--en/index.htm

[8] http://www.un.org/en/ecosoc/integration/2015/pdf/eca.pdf

[9] https://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/recognizing-africas-informal-sector-11645/

[10] http://www.africaresearchinstitute.org/newsite/event/africa-informal-economies-event/

Country Report. Extent of potential revenue from IFFs can be guessed from the figures presented in the introductory chapter IV/6.2.

Given the different legal, illicit and criminal components making up IFFs and the fact, that this phenomenon is taking place in secrecy and varies in its composition from country to country, far more knowledge needs to be assembled first before knowing what approach is most rewarding when tackling it because from a better knowledge of the phenomenon a better idea depends on about the strategic approach to fight them and the best means to do that.

So far, knowledge about IFFs comes from macro-economic comparison and calculations. There is little knowledge about the areas, where those flows originate, and the specific ways on which they are transferred out of the country. Here, more research is needed as to the extent

- How much legal and technical means of the formal financial sectors are used (including the use of shell companies)
- How much money leaves the country via the shadow financial sector
- Whether traditional banking systems such as Hawala, Hundi or Islamic Banking comes into the game.

Here, improved ICT equipment and training of experts may be of help to track down specific flows.

Zambia should also consider the protection of Whistleblower, so that persons having knowledge of illicit and illegal practice gain protection in exchange for their cooperation with authorities. Whether, and to what extent, a state is justified to assist those people in their (principally) illegal doing (since they betray protected and privileged data) is hotly debated, also in Germany. The pragmatic solution is that those Whistleblower only betray preceding illegal offences which is why the preceding offences have to have priority treatment.

2.4 Corporate wealth

2.4.1 The case of mining

Both Chileshe (2014, p.58) and colleagues and Nhekairo (2014, p. 19) were optimistic that revenue from mining will eventually make up 30% of the total state revenue. However: Mining Tax as a percentage of total tax revenue has seen, after a brief recovery after the slump due to the World Financial and Economic Crisis 2007/2008 it went into a steady decline over the last years.

Table 3 Performance of Mining Taxes

Draft version, not yet officially authorized for quoting.

	2010	2011	2012	2013	2014
Company Tax	1,258.8	2,473.9	2,610.3	1,084.7	1,473.5
Mineral Royaty	392.7	868.0	1,458.6	1,760.7	1,766.9
Export Duty	2.4	1.9	3.5	12.2	22.4
Mining Revenue as % of Tax Revenue	12.6%	17.7%	19.7%	12.3%	11.8%
Mining Revenue as % of GDP	1.7%	2.9%	3.2%	2.0%	2.0%

Source 9 (Nhekairo, 2014, p. 19)

The view of Chileshe and Nhekairo is even more optimistic if one looks around the South African Development Cooperation (SADC) region: Only Botswana achieves that goal with 34%, all other states are below with DR Congo and Zambia being on second place with around 20%, followed by South Africa, Tanzania and Namibia with single-digit figures (Nhekairo, 2014, p. 22).

This was not always the case: Between 1964-1976 when copper production was between 600,000 to 700,000 metric tonnes, tax revenue collected as a percentage of total tax revenue averaged around 46%.[11] It certainly would be worthwhile finding out what Botswana does right when capturing such a high amount of tax.

And still: there are more caveats to this optimism by Chileshe and Nhekairo regarding the 30% goal:

- The World Financial and Economic Crisis 2007/2008 illustrated how quickly jobs can disappear which is, in the absence of social security provisions a great hardship for those employed and their dependents.
- Development after the World Financial and Economic Crisis also suggests that a number of quality jobs as regards working conditions, labour rights and payment have been replaced by low quality jobs.

[11] Whitworth, A. (November 2014) Explaining Zambian Poverty: a History of Non-Agricultural Economic Policy since Independence. In: Journal of International Development 27/7

One finally has to bear in mind the high tax refunds that go to the mining sector (over 90%) which over time have dictated the performance of VAT as a tax type. While refunding VAT to exporters such as mining companies is correct, there appears to be large channels through which firms supplying the mines may be avoiding their tax obligations. The VAT refund system needs to be studied to ensure that it is not being abused. There should be greater investment in VAT administration processes and a major review of exemptions to review their cost effectiveness and impact on the VAT tax base. (Chileshe, Manley, & al., 2011, p. 43)

2.4.2 The costs of tax incentives

Tax incentives have two important factors to consider: First, revenue compensating measures, i.e. measures that raise tax, and tax concessions, i.e that which the state foregoes in taxes which cannot be collected.

Table 4 Net revenue impact of budgetary measures (ZMK billion)

Year	Compensating measures (a)	Tax Concessions (b)	Gain/Loss c=(a-b)	If no tax concessions d=(a + b)
2009	78.8	(217.4)	(138.6)	296.2
2008	148.7	(92.4)	56.3	241.1
2007	43	(253.3)	(210.3)	296.3
2006	71.4	(63.2)	8.2	134.6
2005	33.5	(68.5)	(35.0)	102.0
2004	196.6	(31.6)	165.0	228.2
2003	33.1	(22.6)	10.5	55.7
2002	22.8	(53.6)	(30.8)	76.4
Total	627.9	(802.6)	(174.7)	1,430.5

Source 10 (Chileshe, Manley, & al., 2011, p. 53)

As can be seen: Compensating measures (column left) are not always able to offset losses in the second column. Therefore "the net impact of … tax concessions … was estimated at K 803 billion between 2002 and 2009. In the 2009 budget alone, the tax foregone from tax concessions was estimated at K217 billion" (ibid.) If no tax concessions at all have been granted, there could have been an additional tax revenue of K 1,430.5 billion between 2002-2009.

Even though it is difficult to seriously assess tax revenue if there were no tax incentives, listings as the one above clearly suggests to have a closer look at the costs and benefits of tax incentives and to avoid in particular incentives which only advance short term profit for the country or can even be abused by providing additional loopholes for tax avoidance, e.g. transfer pricing.

2.4.3 Conclusion

As explanations in chapter V and VI indicated already, there are numerous tax loopholes and enforcement deficits in taxing coporations, in addition with tax concessions accounting for a lot of potential revenue not-paid.

Regarding the connectedness of mining industry with, and dependence on, global markets, it is not adequate to focus narrowly upon taxation only anyhow: On the positive aspect on has to add the contribution of Corporate Social Responsibility to the overall contribution of MNCs to the common good. Regarding negative aspects one has to look at other benefits obtained by MNCs, e.g. tax incentives, as well as side-effects of production, e.g. environmental damage and pollution, which is often left to the local and national community to deal with it. This will be done below.

2.5 Private wealth

To what extent the holder of private wealth could contribute and how much tax they do not pay is difficult to tell since hardly anything is known about the extent of private wealth in Zambia and the portfolio composition of those households. Given the scarce information existing about private wealth (see IV/2.2), it can be safely assumed that much more could be collected if ZRA could gain a more adequate insight into this segment of taxpayers. Some recommendations on that are given below in

- Transparency for private wealth holder (4.1.1)
- Tax burden (4.2.3)
- Implications from ethical reflection (5.5+6)

2.6 Criminal wealth

Finally, there is the question of criminal wealth in Zambia, which is, besides, tax fraud, tax evasion, trade mispricing and misinvoicing… linked to the question of bribery and corruption, money laundering and criminal offences preceding the money laundering activities (e.g. trafficking in drugs, weapons, human beings…). Here specifically, Whistleblower and witness protection programs might be helpful as long as other means, e.g. technical equipment and investigative and prosecuting capacities, are weak and underdeveloped.

2.7 Conclusion

At the end of this sub-chapter, two caveats shall be drawn:

In the case of developed countries it makes sense to combine the calculation of losses to revenue from taxes and SSCs of IFFs and the informal/shadow economy, as, e.g. Richard Murphy and, building upon him, the European Commission does. In the case of a developing country the informal economy is a far more sensitive area, a job generation machine for the growing population which should not be endangered by overtaxing those investing and working there – and in that, the original assumption of this research (see I/IV/6.2.) needs to be qualified.

Having said that, of course efforts should be increased to identify self-employed individuals and medium businesses continuing to operate within the informal economy, even though they would have the capacity to pay taxes and SSCs. Here, a mix of education and enforcement is called for.

IFF sounds large, but cannot be equalled with tax revenue. If IFFs are taxed, they would be taxed with the established tax rates. The additional gain when combating IFFs and keeping them inside the country are also indirect: The money would be invested or spent in the country which would further benefit the nation.

In all cases

- one may guess how much tax revenue could be due if there were transparency towards ZAR regarding corporate income equal to that of income from formal labour, and
- one may guess how much taxable income could be there if tax planning schemes and/or tax avoidance and tax evasion opportunities could be contained and restricted.

Regarding the question of combating tax evasion, there is need for Zambia to take lead and lobby for automatic exchange of tax information with different countries. Further, Zambia needs to quickly adopt the Report of the High Level Panel on Illicit Financial Flows from Africa. The report recommends measures African countries can adopt to address problems of Illicit Financial Flows as a result of tax administration gaps. The problem of tax evasion in Zambia is to some extent engrossed in abusive transfer pricing and trade mispricing schemes among others. For instance, the report recommends the settling up of databases of information about comparable pricing of world trade in goods to analyse imports and exports and identify transactions that require additional scrutiny in order to address Trade Mispricing (High Level Panel, 2015a).

3 Dependency on other states

In a number of deficits linked to the combating of aggressive tax avoidance, tax evasion and other forms of tax crimes and IFFs, Zambia relies on the assistance of developed countries.

3.1 International cooperation

Regarding international cooperation, there is and remains the general disbalance between developing and developed states which has been made visible at the Financing For Development 3 (FFD3) conference in Addis Ababa in July 2015: While developing countries supported an UN context for setting the rules of international cooperation, the OECD states one the day by implementing their regime.

Assessing this crucial junction of international tax regime discussion, a member of JCTR sums up his experience in Addis Ababa as follows:

> We (=Southern CSOs) were very disappointed that the proposal to set up a UN intergovernmental tax body to control tax dodging by multinational companies was rejected and not adopted by the UN conference in their outcome document. FFD is the only global process where all the countries in the world have their own voice to review international economic and financial rules with the explicit mandate to promote the development of the South. So it was highly expected that the outcome will favor developing countries but disappointingly not. The current concentration of discussion in international tax practices in the hands of only 34 rich countries members of the Organization for Economic Cooperation and Development is not helpful as developing countries have no access to the OECD. A negative balance therefore is very correct and the voices of the few Southern CSOs that attended such as Tax Justice Network Action Aid Zambia resonate with this analysis.

Since the Addis conference concluded, developments are now determined by the developed (OECD/EU) states. Here, also the Addis Ababa Action Agenda or programs like "Tax Inspectors without Borders" does not change a lot since this cooperation takes place within the OECD framework (see SR/VI/5.9.10+11).

Zambia does not have any say or influence in the discussions surrounding these questions at that level at that stage.

3.2 Bilateral cooperation

As has been presented and discussed in V/4.6, Zambia seems to be among those states most disadvantaged by bilateral Double Tax Agreements (Action Aid, 2016a).

Here Zambia should undertake all means necessary to obtain a re-negotiation of such treaties. This is not an impossible task as, for example, the re-negotiation of the DTA between Zambia and the Netherlands illustrates 2015: This treaty replaces the 1977 DTA, adds and anti-abuse clause and is said to be more favourable to the Zambian interest than the one before.[12]

3.3 Conclusion

Given the running budgetary deficit of Zambia, the country is dependent in multiple ways from external financing: Both from FDI, from loan and credits, from ODA etc. At the same time, this research provides ample evidence that there is plenty of money around in Zambia which, if a fair

[12] Zambia, Netherlands sign tax treaty (2015, July 17). In: Daily Mail. Retrieved from https://www.daily-mail.co.zm/?p=36994

share of tax could be collected, would reduce or even remove this dependence.

At the same time, Zambia is dependent on the rules of the international game, and, as a developing country, in a comparatively weak position. Here, Zambia needs to look for allies:

First of all, Zambia should liaise with other states and allies among churches CSOs and NGOs with the goal to advance a global tax regime which is more in favour for developing countries than the present one. Being member of the G77, Zambia should exert the influence it has to shift attention towards the UN system, as done as follow-up to the Addis Ababa conference in a confirming declaration on 7 April 2017.[13]

Second, Zambia should liaise with other states and allies in order to make best use of the present tax regime by, e.g., widening the rules surrounding the Automatic Exchange of Information or the execution of existing tax laws by (a.) obtaining financial support for ICT technology or (b.) support in getting better trained personnel.

Thirdly, Zambia should push for Joint Audits with those countries, where the headquarters of MNEs are who are active in Zambia.

Additionally and aiming for getting a grip on IFFs, there is need for Zambia to quickly adopt the Report of the High Level Panel on Illicit Financial Flows from Africa. The report recommends measures African countries can adopt to address problems of Illicit Financial Flows as a result of tax administration gaps.

Zambia should finally push for the renegotiation of DTAs which disadvantage Zambia, so that more states follow the example of the Netherlands.

4 Discussion of justice relevant issues

The following chapter discusses overarching issues common to both tax law and tax administration.

4.1 Transparency, information, participation

Among the largest deficits stated in the course of this research are those in transparency, information and – resulting – participation of citizens in relevant proceedings, Civil Society Organizations and even experts, civil servants and MPs, which has already been demonstrated in some places

[13] STATEMENT ON BEHALF OF THE GROUP OF 77 AND CHINA BY CAROLA IñIGUEZ, UNDERSECRETARY OF INTERNATIONAL ORGANIZATIONS OF ECUADOR, AT THE ECOSOC SPECIAL MEETING ON INTERNATIONAL COOPERATION IN TAX MATTERS (New York, 7 April 2017) http://www.g77.org/statement/getstatement.php?id=170407b

of this Country Report. First, by illustrating the lack of transparency and participation impeding the participation of citizens and CSOs (V/1.2.1 or aboove, 1.3.1 and 3.5). Second, by giving examples of outside interference of influential stakeholder in the legislative and administrative process (V/4+8, VI/10)

4.1.1 Private and corporate wealth holder

Given the undoubtedly present of private, corporate and criminal wealth (generated) in Zambia, there is plenty of evidence that tax base and tax rates could be broadened. Here, however, the lack of transparency regarding those wealth holders are the main obstacles.

Transparency is obstructed by both deficits in legislation and enforcement: All those outside the PAYE system in the narrow sense have to submit their own tax returns. Not even with those registered, adequate transparency is given since the ZIPAR study illustrated the situation of "mixed cases" of those those with additional business income or those being self-employed.

In all those cases, it is up to ZRA whether to believe in the honesty of those submissions or not – and due to the lack of personnel there are hardly ways and means to check on that.

On top of that, private, corporate and criminal wealth holder have many options to conceal their income and relevant transfers domestically and abroad which are not accessible to ordinary taxpayers (see VI/11.3).

Regarding the lack of transparency of corporate wealth, there is a direct legal obstacle in the way of transparency, namely the Corporate Veil (cf. VI/5.3.2).

All this impacts immediately upon tax collection: If no adequate information is accessible it is not verifiable whether revenue collected via Withholding Taxes in Profits, the income from dividends and rent, is fair since the adequate tax base can only be established if all facts are on the table.

4.1.2 Lobbyism, Cronyism and other forms of "entanglement"

Next, there are options wealth holder and other persons and institutions in privileged position have to influence the legislation (see V/4.4) and collection of taxes (see VI/10). There is no way to examine the more subtle forms of "Cronyism"[14] and "entanglement": While lobbyism normally involves some systematic, goal-centred effort by professionals, the latter has to do with the fact that in all countries the political, administrative, economic and financial elites happen to know one another

[14] See, e.g., https://en.wikipedia.org/wiki/Crony_capitalism

well, because they went to the same schools, are part of the same clubs and societies, meet at the same parties and perhaps share holiday homes, planes and yachts. This research revealed that in African countries, more than in other countries, e.g. in Europe, also ethnic and familial links come into the game. All those forms of influence are not observable and measurable, but they undoubtedly have a tangible impact on tax legislation and collection.

4.1.3 Corruption

Finally, some word to outright bribery and corruption: Here and there doubts can arise whether tax presents made to foreign investors are always done in accordance to good governance discretion and decision.

In a communication to JCTR in January 2014,[15] the Zambian Anti Corruption Commission listed between 2005 and 2012 41 cases which were related to tax evasion, out of which 16 were related to outright corruption. Out of those cases, K 57,201,207 were not taxed and K 36,580,180 of taxes were not remitted.

Damage arising from tax evasion for Zambia is considerable. In a communication to JCTR, the Zambia Anti Corruption Commission stated that of 41 cases linked to tax evasion between 2005-2012, K 57,201,207 were not taxed and K 36,580,180 of taxes were not remitted. The underlying offenses had a wide range. The letter details:

> "The forty one cases relate to a wide range of taxes which include VAT, PAYE, Company Tax, Customs duty, Personal Levy and Duty drawback claims on fuel reexports.
>
> I further wish to advise that during the period of interest, the types of reports received by the Commission were as follows:
>
> Individuals owing undeclared business properties for which they were not paying taxes.
>
> Businesses which were being operated through the internet and were not captured by tax collecting authorities.
>
> Bribery of officers at the Border Post, with intent to aid individuals and business entities to either under declare tax or evade payment of taxes.
>
> Submission of falsified declarations with intent to avoid and evade tax obligations.
>
> Maintenance of two separate receipt books from which only one is availed to Zambia Revenue Authority (ZRA) while the other one is concealed.

[15] Letter ACC/102/10/9 of the Anti Corruption Commission from 8 January 2014 to JCTR.

> Companies avoiding issuing of tax receipts thereby under declaring sales on the total taxable turnover of the business.
>
> Falsified claims on the duty draw backs of re-exports."

One need to bear in mind that only those cases were notified to the commission where reasonable evidence could be collected so that investigation and prosecution seems to be possible. An unknown number of cases could not be investigated and prosecuted due to the absence of personnel or the absence of information.

Bribery and corruption is a serious problem in Kenya and Zambia and applies to direct bribery in commercial business transactions as well as payments with the intention to "bend" the assignment of commissions in a tender procedure is only one way of influencing the proper functioning of market procedures.

4.1.4 Conclusion

Regarding the first point, namely the lack of transparency of private, corporate and criminal wealth, is both a legal and enforcement problem: because weak legal stipulation and regulation underlies low enforceability.

Undoubtedly, attempts to influence decisions and tender procedures via lobbyism or forms of "entanglement" are of greater importance for deficits in tax revenue than outright cases of bribery and corruption.

In all cases, however, applies the observation of this research, that there is a link between poor tax compliance and tax performance within wide sectors of society on the one hand, and the poor level of transparency and information with resulting poor participation of citizens in tax formulation process at all levels of government on the other.

Improving transparency and the right to information, therefore, are an important step forward to raise interest and engagement (ZIPAR, 2015).

Participation is, for JCTR being an institution of the Catholic Church, of importance, since we trust in the benefits of democratic participation and since participation is one of the principles of Catholic Social Teaching (see SR/VII).

This is, after all, an aspect of equal treatment and justice: This research does not ask for special and specific transparency for private, corporate and criminal wealth holder. It asks for equal transparency for all taxpayers. In other words: That private, corporate and criminal wealth holder should be as transparent to ZRA as those employed in the formal sector and who are taxed via the PAYE system.

Needless to say that the preceding measures would also increase transparency regarding the spending of taxpayers' money and, once citizens perceive and understand better on what purposes and projects their money is being spent they will be more inclined to live up to their taxpayers obligations.

4.2 Tax burden and potential for correction

4.2.1 Tax burden on PAYE on the formal sector

Presently, the Pay As You Earn (PAYE) tax system within the Income Tax Category contributes, as single identifiable category, more tax revenue to the treasury than other tax types. This puts a comparatively heavy burden upon those workers both in view of businesses (see 1.2) and in view of those employed in the informal sector.

Regarding the latter one has to bear in mind that, according to the Central Statistics Office (CSO), as of 2012 they were only 847,420 people working in the formal sector against 4,652,253 people working in the informal sector.[16] However, in the same year (2012), the Zambia Revenue Authority (ZRA) observes; out of the K11,733.8 billion as total income generated under the Income Tax Category, the PAYE contributed the largest share of tax revenue at K4,934.0 billion representing 42.0%. (Zambia Revenue Authority, 2012). The total tax revenue collected from the informal sector was only K62 million representing 0.52%.[17]

The high burden on those people is also due to the fact that PAYE earn taxes are transparent to ZRA. The tax is simple to administer and cheap to collect, since they are deducted and forwarded by the employers to ZRA.

What reforms could be considered in order to (a.) spread the burden more easily and/or (b.) to lighten the burden? The following could be suggested:

- There could be another tax rate for those with high income (see 4.2.3)
- Regarding the informal sector, economically strong businesses could be identified and taxed (see 7.7)
- Self-employed working "informally" could be identified be made equally transparent to ZRA as those working in the PAYE segment (see 7.7).

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[16] Central Statistics Office, (2012). *Zambia Labour Force Survey Report 2012*. Lusaka: Central Statistical Office. p.56

[17] Zambia Revenue Authority, Research and Planning Department

- Reforms in the large business/TNC sector could be improved and, that way, tax reductions could be cross-financed for those who bear right now an over proportionate burden right now.

4.2.2 Shift from direct taxation to indirect taxation

The introduction of the Value-Added Tax (VAT) in Zambia was a central component of the tax reform. The VAT is simple to administer and is uniformly applied to a broad base, with special tax breaks. According to the Zambia Revenue Authority, "VAT is a largely invoice based and therefore uniform and uncomplicated, offering a sound financial management system with less collection weaknesses."[18]

With a larger emphasis on indirect consumption and trade taxes was – among other reasons – intended to lighten the tax burden placed via direct taxes upon formal labour and corporations. They "are paid by almost the entire population as they consume various goods and utilize certain services" and are therefore a better way to both broaden the tax base and share the tax burden (Nhekairo, 2014, p. 13).

This, however, affected low income households most severely: nearly all essential basic commodities particularly food stuffs attract a higher VAT. Looking at the JCTR basic Needs Basket (BNB), all essential food items (Beef, Milk, Cooking Oil, Sugar, Fish and Kapenta) attract VAT of 16%. A higher VAT affects households more. Dr. Kabaso (2010) observed that, "VAT paid on food is borne more heavily by urban households."[19] Urban households as compared to rural households spend more on food stuffs as compared to rural households this is due to the fact that rural areas are largely farming communities. According to the JCTR Basic Needs Basket (BNB), the cost of basic food items for a family of five in Lusaka was K1, 014.70 in March 2015.[20]

Low income urban households spend more than 50% of their earnings on food items only given that the average monthly income in informal employment where majority of low income households are found was around ZMW 1,545.70 as of 2012 (Central Statistical Office , 2013, p. 79). Therefore, a higher VAT on basic food items is likely to affect urban households more especially low income households. In low-income

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[18] Zambia Revenue Authority, (2014). *Value Added Tax Guide*. Lusaka: Zambia Revenue Authority.

[19] Kabaso, P. (2010). *Reforming The Value Added Tax in Zambia (Doctoral Dissertation, University of the Witwatersrand). Retrieved from* *http://wiredspace.wits.ac.za/bitstream/handle/10539/9626/Abstract_Reforming%20Value%20added%20tax%20in%20Zambia.pdf?sequence=1*

[20] Jesuit Centre for Theological Reflection (JCTR). Retrieved April 15, 2015 from http://www.jctr.org.zm/images/stories/pdf/BNBs/Lusaka/LusakaMarch.pdf

households of Lusaka (Garden, Kamanga Compounds) were JCTR monitors the living conditions of the people, many struggle to afford basic food items because they are expensive.

Urban households, compared to rural households, spend more money on food due to the fact that rural households largely practice subsistent farming for their livelihood. For instance, according to the JCTR Basic Needs Basket (BNB), the cost of basic food items for a family of five in Luanshya urban district was K836,860 in March 2012[21]. During the same period, the JCTR rural basic needs (RBNB) for Saka rural area, showed that, with the exception of few food items, most food items consumed were own harvests by households.[22]

Regarding rural households, especially subsistence farmer and low income households, also have to pay VAT which could create problems if, for example, one farmer brings a cow to slaughter or for sale with the intention to pay school-fees for children, but has to pay a lot of VAT and Turnover Tax in the process.

That way, the original intention to introduce and increase rates of VAT might or might not have succeeded, because it is not clear whether the increased revenue was indeed (partly) used to reduce the tax burden of PAYE worker. What it most certainly achieved was putting a severe tax burden on subsistence and low-income households

Could this be reformed?

- One could certainly learn from other African states which encountered the same problem within their context.
- One could consider the exemptions possible with the VAT system and try to fine-tune it better to the need of poor households
- One could levy a luxury VAT for goods only achievable for wealthy households to cross finance rebates for poor households (see next paragraph)

4.2.3 Private wealth

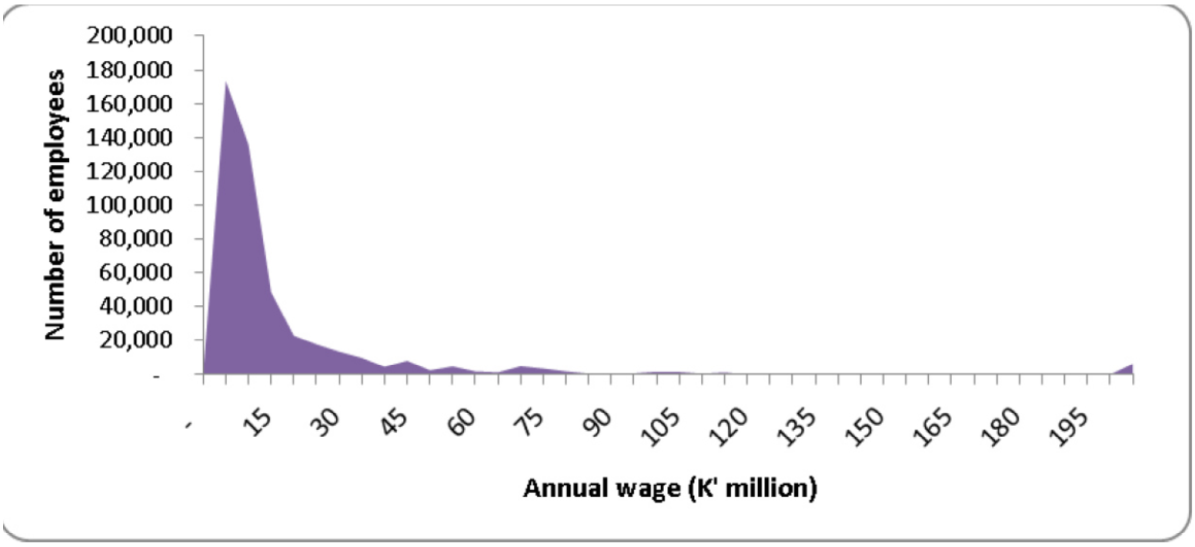
Chileshe et.al. observed that, “Income from capital, such as property or shares is not efficiently and effectively taxed.” (2011, p. 43). Since wealthy individuals derive much of their income from assets rather than from salaries, without an effective system of taxing assets or shares, a heavier tax burden is borne by few low and middle class employees in the formal sector through PAYE tax deductions from salaries.

[21] Jesuit Centre for Theological Reflection (JCTR). Retrieved June 26, 2015 from http://www.jctr.org.zm/basic-needs-basket-doc/1392-bnb-march-2012-luanshya/file

[22] Jesuit Centre for Theological Reflection own records.

As indicated in chapter IV (2.2) already, there are a number of millionaires in Zambia and the number seems to be fast growing. This seems to be confirming a much older graphic of which, unfortunately, no updated version could be found:

Graphic 8 Distribution in earnings by those employed in the formal sector (2006)



Source 11 (Chileshe, Manley, & al., 2011, p. 41)

What could be done to place a fairer burden upon private wealth?

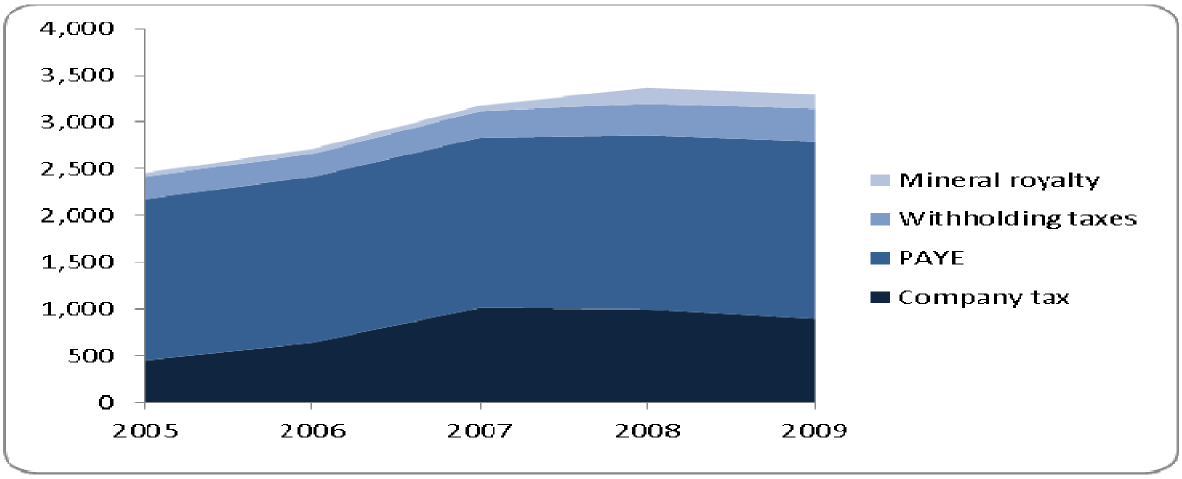
- Create transparency regarding their income comparable to that of PAYE worker (see 4.1.4)
- On the background of the graphic above, one needs to recall that even after the most recent reform the present top PIT tax rate of 37.5% starts at K 6,200 per month already, applying to all income from K 74,400 and above (see V/2.1): The question is, why there is not another tax rate for those who are really wealthy of, say 45% or even 50%?
- Registration efforts regarding land ownership and resulting income from rent needs to be intensified, data bases need to be improved (see VI/3.3)
- The exchange of information between different data bases regarding business and share ownership and resulting income from businesses (dividends…) needs to be improved.
- The data exchange between ZRA and banks needs to be improved to enable ZRA to monitor financial flows out of the country.
- Finally: Why not considering a luxury VAT on goods which can only be purchased by wealthy people? The 2015 Living Conditions Monitoring Survey Report clearly brought out the extent to which domestic consumption in Zambia is dominated by the top decile of

the population (see IV/1.1). Clearly, this would justify some special VAT tax rate for goods costing twice or three time that which an average household would earn for a monthly living. For the sake of public acceptability it could also be a levy, e.g. for subsidizing from this money public education or public health care, i.e. it could be called “Special Education Levy” or “Special Health Care Levy”.

4.2.4 Taxation of businesses and TNCs

First of all, one needs to distinguishes between MSMEs and MNEs: The former, independently, are, seen together, a job generator as important as MNEs – even though they may operate in the formal or informal sector. Both settings call for different tax burdens and different approaches to enforce tax laws and obligations.

The biggest problem regarding tax justice emerges if one compares the revenue raised from PAYE in comparison with the combined tax burden, i.e. the burden arising from different taxations, levied on large businesses:



As shown in the table detailing tax rates (see V/Annex 1), the general tax rate for corporations is 35%. Even though this rate is as high as the top PIT rate, there is unfairness because this rate is fixed unlike income on labour whose rate is progressive. It needs to be explored whether the combination from Mineral Royalty and Variable Profit Tax/Windfall Tax is adequate to capture a fair share from businesses and, at the same time, does justice to the ups and down of volatile global markets.

That there was a further reduction in taxes levied on mining corporations besides the fixed or constant 35% corporate income tax is a demonstration of the decreasing burden on corporate income tax. At no point has there been an abolishing or reduction of income tax affecting income for employees. There are, however, annual exemptions from PAYE (wage/salary tax) for employees earning below a certain threshold.

Given the excessive (mis-)use of derivatives by Zambian TNCs (see V/4.6) one should verify whether provisions of the 2012 law, attempting the separation of hedging income from other mining income, covers adequately all lacuna and loopholes. If not, this would be yet another argument supportive of a Financial Transaction Tax (see below 4.2.5).

Could one improve the fair share of businesses to state revenue? Here one has to ask several questions also regarding the specific place businesses have in Zambia: All of them generate jobs and produce goods and services, which should not be endangered. Especially the mining industry also depletes non-renewable resources which means that natural capital is destroyed and the question arises, whether Zambia is adequately compensated. Besides its relevance for the question of taxation, it is a more complex question also involving philosophy, ethics and economical considerations (see below, chapters 5 and 6).

But clearly, Nhekairo is right in that “company and withholding tax” need to be reviewed in order to “ensure that issues of equity are adequately addressed” (Nhekairo, 2014, p. 15).

4.2.5 Taxation of land and capital

This research also highlighted deficits in the taxation of income from real property and land, which are important sources of income for private and corporate wealth holder. Ethically, income from these sources can be called “unearned” income as opposed to “earned” income from labour. Here, therefore, an increase of the tax burden is highly justified.

There is, so far, inadequate knowledge about land ownership and registration efforts has just started (see VI/3.3). These efforts need to be stepped up for the following reasons:

- It is taxing a source of income for which its owner does not have to work.
- It is not distortive, i.e. if one taxes businesses it may have an impact on jobs. If one taxes real estate, not much might happen
- It cannot be relocated into tax havens.
- It is one of the oldest wealth tax in history and it is absolutely underutilized currently in Zambia.

Regarding land, there are numerous taxes and rates which can be considered:

- A recurrent Wealth Tax on the value of the property
- A property transaction tax in case of sales
- A withholding tax on the generated income

- Most importantly, a stiff inheritance and gift tax when property is passed on to future generations (see below 5.5+6).

This study also supports the global tendency to lighten the burden on all sorts of capital as compared to the burden put on labour. This results in the tendency that more profit is gained by the generation and trading of financial products than by producing goods and services. This tendency needs to be stopped and reversed.

Besides the taxation of real property, Chileshe and colleagues also recommend a tax on capital gains which, as in the case of income from rent, could be collected via Withholding Tax (2011, p. 23). Withholding Tax could be expanded because they are cheap to collect once a system is in place: Withholding tax is a government requirement for the payer of an item of income to withhold or deduct tax from the payment, and pay that tax to the government. This includes withholding tax on dividends, interest, rent, commissions, management and consultancy fees. Unfortunately, in Zambia, this tax has not performed very well and has only averaged 5 percent of total revenue collection in the last ten years. The main reason for its poor performance is the lack of disclosure of such earned income by the majority of earners. Effective use of withholding taxes can assist Government to combat tax evasion, because typically the withholding tax is treated as a payment on account of the recipient's final tax liability. It may be refunded if it is determined, when a tax return is filed, that the recipient's tax liability to the Government is less than the tax withheld, or additional tax may be due if it is determined that the recipient's tax liability is more than the withholding tax. In some cases the withholding tax is treated as discharging the recipient's tax liability, and no tax return or additional tax is required (Chileshe, Manley, & al., 2011, p. 12f.).

Since, regarding the taxation of business income, the application of withholding taxes is not permitted because of Double Tax Agreements here again the question arises whether, and how, Zambia could find allies to both re-negotiate bilateral DTAs and to reform the international set of tax rules by, e.g., shifting emphasis away from the OECD to a more UN inspired regime.

Another important option could be the Financial Transaction Tax which both Chileshe and colleagues and Nhekairo discuss in their respective papers. They both are sceptical,[23] but their verdict should be reconsidered:

[23] The former: "With regard to the ToR proposal of a FTT levied on commodities in which revenues can be remitted back to Zambia, this study is not supportive. This is because such a remittance mechanism would not be at all feasible since the vast majority of trading is not related to any physical commodity so there is little way that a trade can be

FTT has hardly any collection costs and, as a withholding tax which is creamed of computerized trade, is among the cheapest taxes worldwide. It is both useful for misuse of hedging instruments and can also collect revenue from other forms of IFFs, even criminal ones (see GER/VII/1.3). Given the model implying the "residence" and "issuing" principle within the EU/Enhance Cooperation context, a global implementation is no longer a prerequisite for a FTT to work properly. Here Zambia should consider whether it joins the movement towards that tax and acts as an advocate of it within its context.

4.2.6 Burden arising from debt and environmental degradation

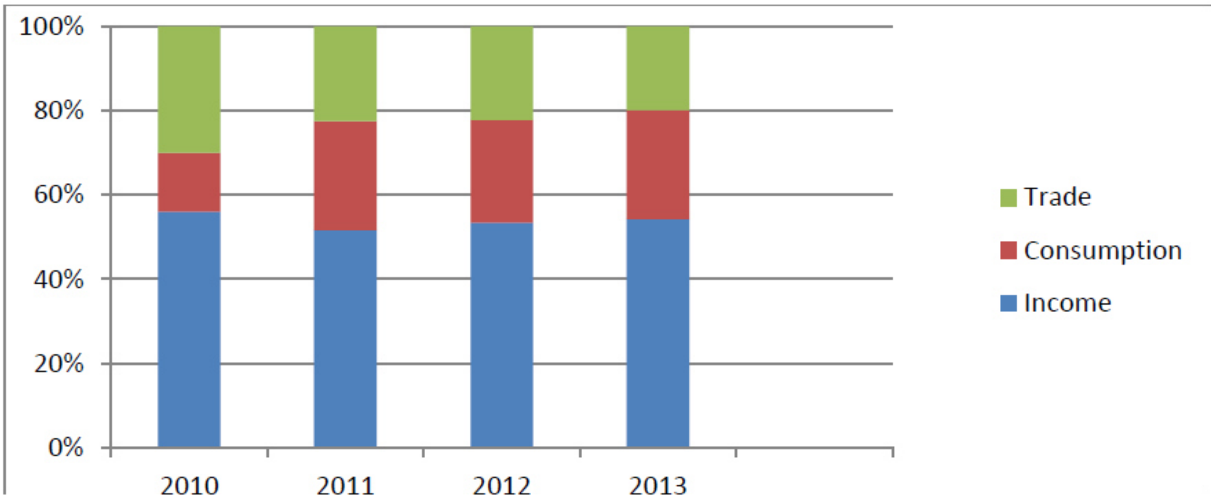
Finally the Zambian regime on debt and environmental taxation reveals a tendency that creates burden put on the shoulder of futures generations who do not have a say in present discussion. Even though the Minister of Finance argues one must not put burden on the next generations (see 6.7), Zambia continues to acquire more debt rather than investing in the improvement of Domestic Revenue Mobilization. And: Zambia continues to be timid on environmentally relevant taxation, even though climate change and high costs of pollution and degradation are bad not only for the living, but especially for those to come. On the background of an intergenerational debt for all, too, the question of Inheritance and Gift Taxes are important to consider.

4.2.7 Conclusion

Clearly, the tax burden is, right now, highly unfair, as the following graphic illustrates:

Graphic 9 Tax revenue share of trad, consumption and income taxes

allocated to a specific country." The latter: "One possible innovation is the use of a Financial Transaction Tax on copper that is traded on the international market. The study evaluates the possibility of such a transaction tax – has not been tabled. It is unlikely that it can be in the near future because of its complexity and non-consensus on a global basis."



Source 12 (Nhekairo, 2014, p. 14)

The burden on businesses decreases, the revenue from consumption increases (including the burden on poor households) and the interesting fact is that the question of wealth taxation or green taxation does not even figures as a category. Here this chapters offers a number of avenues which could be explored further.

4.3 Insurance deficits

4.3.1 Changing solidarity networks

Pascal Andebo in his Topical Paper 1 to this research, devoted some attention to the link between demography and social security systems in Africa (Andebo, 2014a). Factors such as demographic developments after colonial 'interruption' of traditional solidarity networks have affected the construction of a comprehensive social security system. Andebo points out the increasing collapse of traditional networks of social solidarity among members of the extended family due to increasing individualization, rural-urban migration and the collapse of the traditional role of women to primarily bear children etc. At the same time, there is no modern system of social security in place. Whereas in earlier times children immediately cared for their parents, this is getting difficult if children move away for professional reasons given the absence of a public care system.

There are some attempts to establish modern, private or publicly funded social security systems, but it is only beginning. In Zambia only a retirement scheme has started. There is no health insurance which covers all citizens. Given the demographic development in Zambia, one can imagine the enormous task ahead for respective governments to guide the transition from inception of a social network to developing a compressive and sustainable redistributive system of solidarity, financed via taxes and mandatory social security contributions.

4.3.2 Formal sector employees and their families

So far, only those working in formally in the private and public sector and who are within the PAYE system are part of the emerging insurance system for pensions. There are, however, deficits even here: In 2013, NAPSA Acting Director General is on record having said that, "some companies were defaulting in the remittance of employees."[24] However, although NAPSA charges penalties to employers who remit employee contributions late, the penalty fee charged by NAPSA does not directly go to the employee account instead the penalty is taken by NAPSA. The penalty fee amount should be credited to the employee's NAPSA account and not taken by NAPSA. Further, there is need for continuous checks by NAPSA to ensure that employers remit the employees contributions. Lastly, NAPSA should continuously sensitize the employers in order to ensure they are aware about the pension scheme. A problem linked to that is the case that, when a business goes bankrupt, defaulted contributions cannot be collected.

4.3.3 Informal sector employees and their families

Worse is the situation for those being employed in the informal economy: Since informal sector is largely unregistered, it goes without saying that there are very few informal sector employees who are able in principle to contribute to social insurance through mandatory social security contributions. This implies that this category of employees is not only vulnerable to a lack of decent living (since they earn low wages) but will also be worse-off once they are no longer in employment since there is no social insurance.

4.3.4 Conclusion

Right now, the emerging Social Insurance System has many deficits for those working in the formal and informal economy. Zambia attempts to make up for the deficit by also directing taxpayers money in some solidarity scheme: The Local Government Equalization Fund (see above, 1.7) also supports poor people with cash transfers and food aid. That which is possible here is, however, hardly adequate.

One suggestion is the following: There are not too many incentives in Zambia for businesses operative in the informal economy to register within the formal sector because it is not obvious what advantages they would obtain (see below 7.7). At the same time, there are compelling arguments to spread a wider and more comprehensive insurance system since that, which people pay in SSCs, will later benefit them. Via the

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[24] Lusaka Times, (2013). *NAPSA Says That Most Employers Have Not Registered Their Workers*. Retrieved on 6th January, 2015. From: http://www.lusakatimes.com/2013/03/27/napsa-says-that-most-employers-have-not-registered-their-workers/email/

registration of insurance, perhaps, also worker and businesses of the informal economy can then be drawn into the formal sector.

4.4 Green Taxes

Whether inequality, public or the environmental crisis is the most serious crisis to worry about[25] or whether it is the "trias" of crisis in employment, inequality and environmental crisis (Randers & Maxton, 2016): Major experts are definitive that climate change poses a severe challenge, as do the costs to prepare for and cope with it.If there is one argument needed one should look at chapter 2.3 in the introductory chapter, where "Drought" was mentioned most frequently as "exogenous shock" underlying poverty in Zambia in 2015

Here, therefore, taxation also comes into the play both to reduce harmful behavior by, e.g., putting a price on it ("Pigou Taxes") or by generating revenue which could be spent on subsidizing environmentally friendly alternatives or to support households which are harmed by environmental legislation, e.g. by prohibiting deforestation.

The Zambian government is aware of climate change and it is dealing with it, both by spending taxpayers money and by initiating PPP projects for increasing resilience to deal with it (Mutati, 2016, p. 5). That which is being done in Zambia on the issue of "Green Taxation" is, however, not adequate when comparing them with the challenges rising at the horizon and it is the opinion of this research that more thought needs to be spent on that issue, see also (Andebo, 2014a).

4.5 Taxpayers Perception about tax justice in Zambia

The subject of tax justice is discussed a lot in Zambia. There are a number of issues that have trigged this subject. Firstly, there are allegations that some Multinational Corporations (MNCs) are not paying adequate taxes. Further, it has been observed that only a few employees in the formal sector pay a lot of tax revenue as compared to employees in the informal sector.

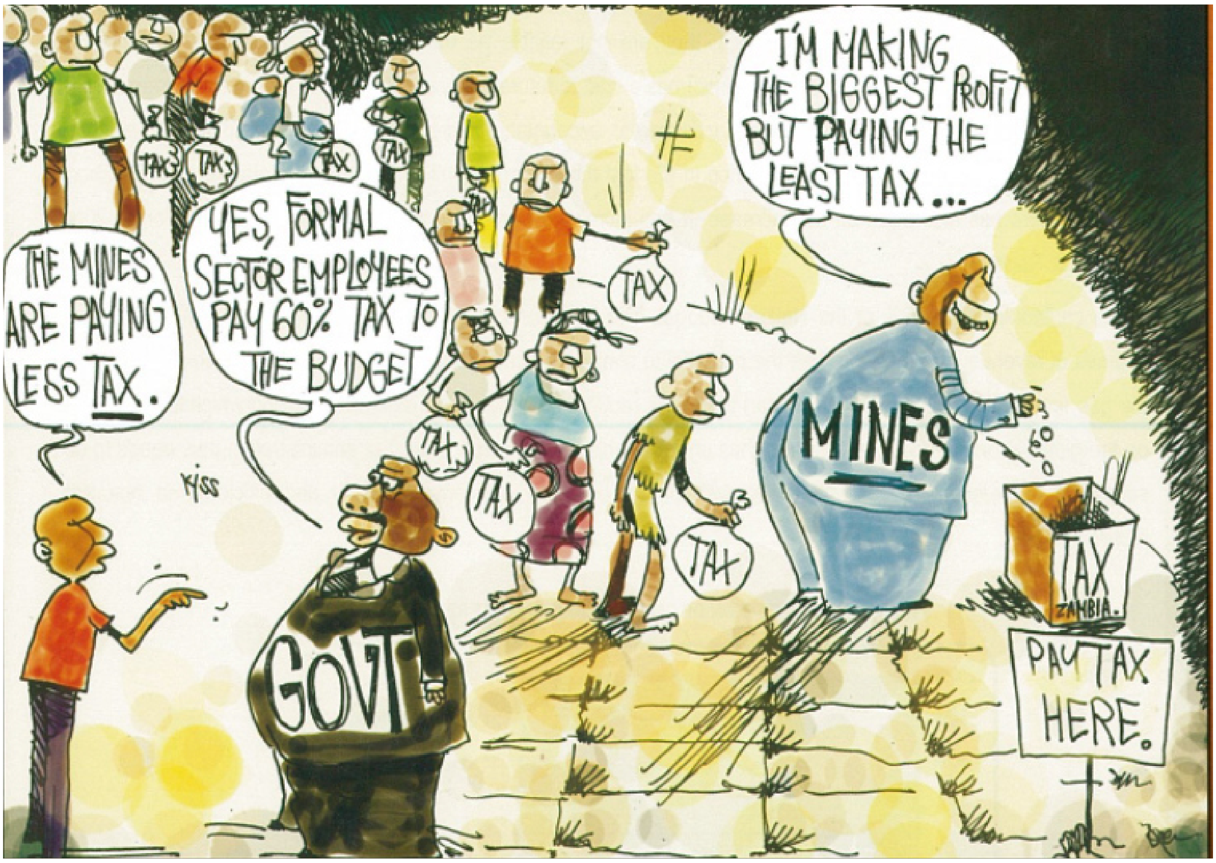
The mining sector could generate more tax revenue. Fred M'membe, Editor in Chief of the Post Newspaper argues, "There is something seriously wrong in the way we are taxing mining corporations. The mining regime suffers from several failings. We signed too many concessions with individual mining investors which are increasingly becoming difficult to harmonize and administer."[26] Furthermore, Anthony Kasolo, a Legal Tax

[25] The more urgent need is to increase our educational capital and prevent the degradation of our natural capital' (Piketty, 2014a, p. 445), see I/IV/2.4.3.

[26] M'membe, F. (2014, November 4). *All they Want is Zero Tax*. Retrieved from: Post Newspapers Limited. p.36

Expert and Lawyer, claims “Tax must be equitable and that is why I am saying we need to have a wholesome look at our entire mining taxation and plug all the loopholes and bring clarity and stability to the mining taxation regime.” (Kasolo, 2013). The obvious justice deficit will endanger also tax compliance and tax honesty by all others. It is therefore, imperative that sufficient tax revenues are generated from sectors such as the mines to fund development programmes and reduce dependence on external financing

Graphic 10 Illustration of taxpayers perception of tax justice in Zambia



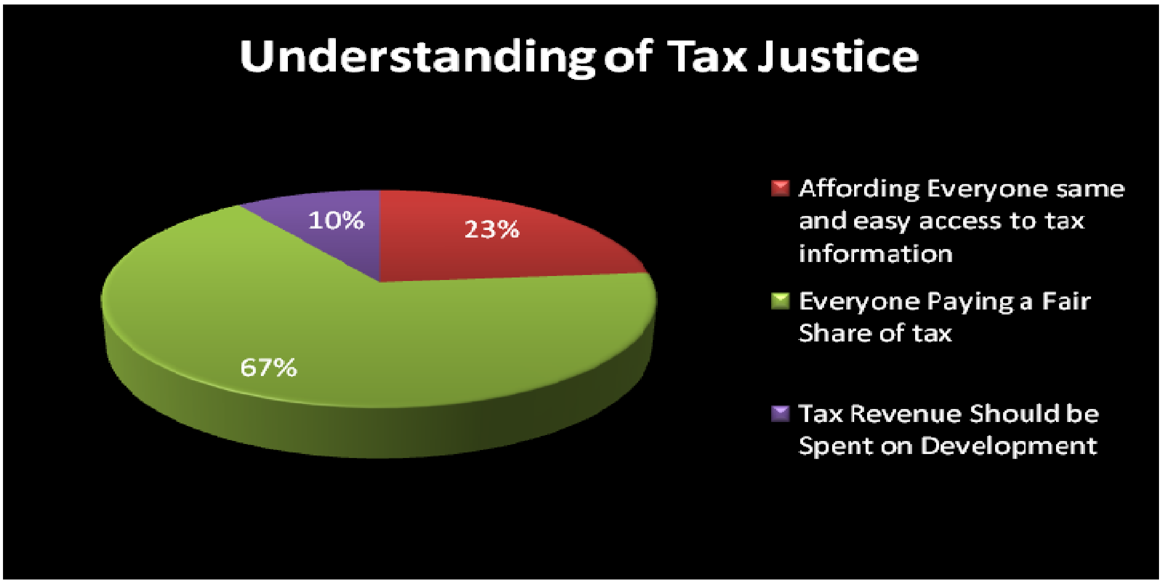
Source 13 (Chileshe & Mwansa, 2010)

4.5.1 JCTRs survey

During this research, the JCTR did a representative survey among 60 large, medium and small taxpayers operating businesses to understand their views on tax justice in Zambia. While the replies in chapter VI focused on practical questions of business taxation, there were also three questions addressing explicitly the feeling of fairness: In the following, results to three important questions are given:

“What is your understanding of „Tax Justice“?”

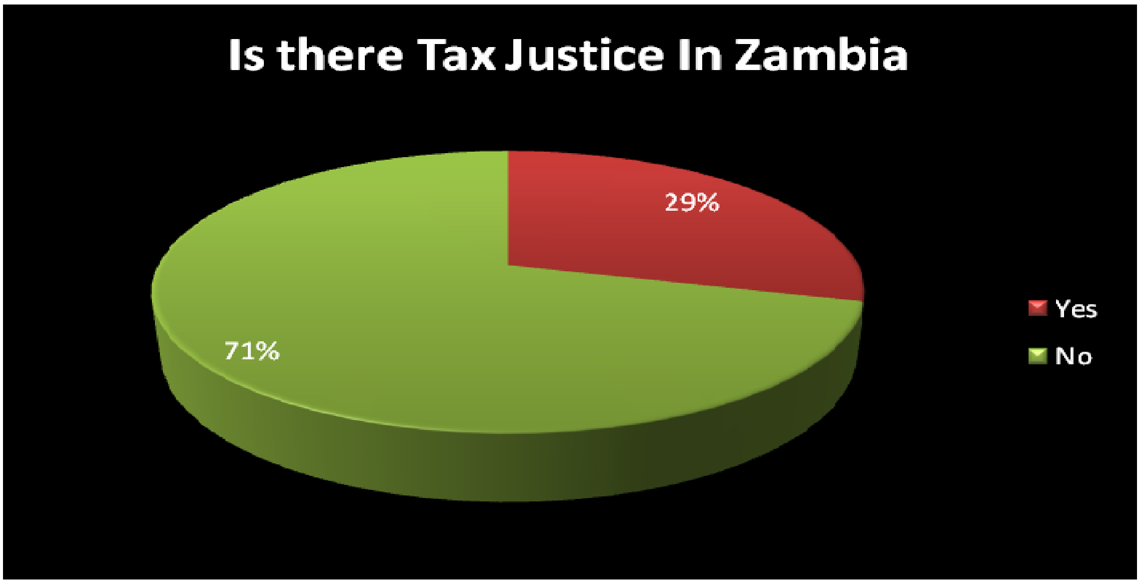
Graphic 11 Taxpayers understanding of Tax Justice



Source 14 (JCTR, 2014)

"Is there Tax Justice in Zambia"?

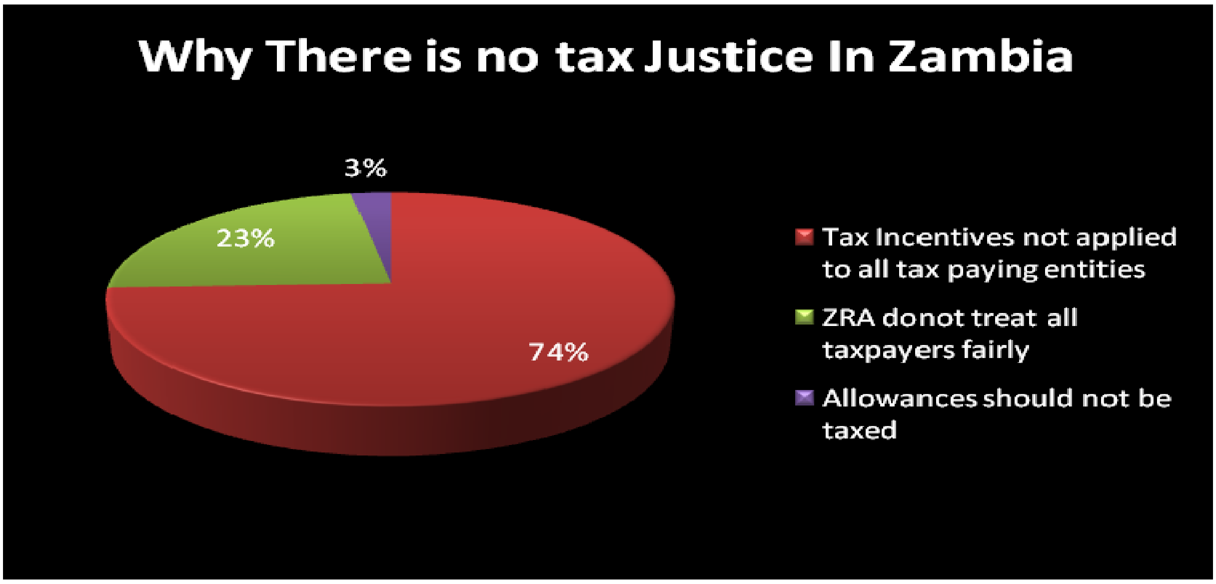
Graphic 12Taxpayers perception if there is tax justice in Zambia



Source 15 (JCTR, 2014)

„Why is there no tax justice in Zambia?"

Graphic 13 Taxpayers perception about tax injustice



Source 16 (JCTR, 2014)

Given the imbalance of the tax burden between PAYE and TNCs, widespread knowledge about tax incentives and tax evasion which is all reported in the national media, those findings are not surprising.

4.5.2 Conclusion

From the findings it is clear that majority of the respondents link tax justice to the efficiency and equity of the tax system, but that also the principle of Ability to Pay is implied ("everybody paying a fair share of tax"). The majority of the respondents argue that there is no tax justice in Zambia because tax incentives are not uniformly applied to all the tax payers.

4.6 Conclusion

To effectively raise sufficient state revenues, it is imperative that government considered reviewing the whole national revenue collection structure by mainstreaming free-riders on the economy and addressing the resource spillage arising from inefficient political and bureaucratic expenditure. With increased revenue mobilization, there would be more investments to eradicate poverty, income and wealth inequalities. Zambia's Minister of Finance, Chikwanda observes that "low levels of investment have greatly contributed to the higher levels of poverty in Zambia. It is the responsibility of every citizen to pay taxes as government needs revenue to drive the country development agenda. The government would ensure that all taxes collected were used prudently to the benefit of society."[27]

[27] Chikwanda, A. (2014). *Zambia Requires Massive Resources to Develop*. Retrieved May 28,2014 from http://www.lusakatimes.com/2014/01/25/zambia-requires-massive-resources-develop-chikwanda/

Zambia has mainly the following policy options to pursue to address deficiencies in domestic revenue mobilization through taxation: To start with, broader and long term taxation policy consistency on the mining sector coupled with diversification of the economy and a review of the VAT refund modus operandi which indicates that a bulk of it goes the mines. It is apparent that the current VAT refund regime is perverse with fraudulent claims where shell subsidiary companies are used as a front in tax planning and scheming through inflated importation costs of equipment to claim VAT and capital allowances. In this context one should cooperate with other states to find out, to what extent tax concessions and aggressive tax avoidance and tax evasion contribute to the profits of TNCs. Similarly, Zambia must deal with IFFs, especially tax evasion of private and corporate wealth holder, including rampant and pervasive mispricing by corporations, and tap into the taxation revenue potential of small and medium enterprises. This will primarily require the formalization of SMEs, of which the incentive of insurance could be a potent attraction for employer and employees.

5 Ethical considerations

Some remarks on ethics are equally needed in order to understand the conclusions and recommendations of this research. They shall be brief since they are more extensively explained elsewhere (see, e.g., SR/VII).

5.1 The problem of competition

Manley points out that Zambia needs to have a "competitive tax regime" (2013, p. 17) in order to attract FDI. This is certainly true, but this research notes that the dominance of all sorts of competition, including tax competition, right now gives rise to too many opportunities advancing aggressive tax avoidance and tax evasion.

This is not surprising, since Milton Friedman labelled the form of capitalism, he promoted as "competitive capitalism", whereas later it became universally known as "neoliberalism". Whereas Catholic Social Teaching also accords competition, albeit within a regulated marked environment, an important place for the creation of jobs, consumer goods, income and wealth, an exaggerated competition is behind problems such as the bloated informal and shadow economies, tax avoidance, tax evasion, the deterioration of labour pay and labour standard and environmental degradation.

Accordingly, excessive competition developed from a market mechanism into a frame of culture, values and mind set which did not stop even with human beings: They no longer were the focal point of all human policy and politics, but one more commodity and utility in the economic process. We therefore need to replace competitive capitalism with a "Capitalism of

Solidarity" and we need to give democracy and politics the place back which is due to them.[28]

5.2 Market, state and democracy?

From that derives the question, whether "the market", "the state" or "democracy" is the best institutional framework to guide the human aspiration to generate wealth and welfare. For the past decades, the free market ruled supreme, and state regulation as well as democratic control was subjected to its "efficiency". Now, after the 2007/2008 World Financial and Economic Crisis, there is disillusionment about the capability of a free market and state regulation and democratic participation and control wins back some of its importance. Here, and from a Catholic Social Teachings point of view, a solid balance needs to be obtained so that the market forces shall do what they can do best, namely allocate and distribute resources, but firmly guided by rules which enable an even playing field for all participants, different from now, where rules are permanently bent in favour of private, corporate and criminal wealth holder, to the disadvantage of MSMEs, ordinary workers and citizens as well as the unborn generations or natural resources.

5.3 Values, means and ends

On that background, one should note that there are multiple world views and value systems within modern society, struggling for different ends and means to achieve those ends. In this fight, and under present day circumstances, some are more powerful than others.

This needs to be exposed first, which is why transparency is so important. Once it is exposed, it can be reformed.

The supreme goal and end of this research done by JCTR is: The reduction of poverty, entirely in accordance with the goal outlined in 2011 by Chileshe, Manley and colleagues.

Here, Catholic Social Teaching could win a powerful ally in its arguments by joining forces with "Happiness Economics": This gained importance after the World Financial and Economic Crisis which suddenly highlighted for the many the limitations of the present, on material growth focusing economic system. In turn, it discovers and promotes non-material values such as quality time with family, free time, clean environment, healthy

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[28] G20, World Bank and IMF started to promote "inclusive capitalism", but when looking at that concept more closely it seems to promote only changes at symptoms, but not at the causes, thus preserving the structural imbalance within the present system benefitting the few rather than the many. We therefore prefer, in reference to the CST principle of solidarity, the expression "Capitalism of Solidarity", which attempts to balance market forces with regulation for the benefit of the many, not the few. See also GER/W/II and SR/VII.

societies etc., all items which are appreciated and do not have any price tag to it.

Whatever is useful to reduce poverty in a balanced way, i.e. that it does not create short term benefits by creating or permitting even more (long term) damage, should be considered on its merits. This is why we are not adamant on taxation and tax justice, as long as our conversation partner can convincingly suggest better alternatives (see below 6).

At that place an important insight of the German Country Study should be noted: There, too, was the question, whether values and education on the one hand, or leaks, enforcement and punishment on the other are the better avenue to achieve tax compliance The result was unambiguous: Leaks, enforcement and punishment, and this became obvious in the wake of leaked Data CDs: Until then, tax avoidance and evasion among the top wealth holder was normal, even chic, and a topic of elevated social behavior. As soon as leaked Data CDs revealed the extent of damage done for the common good, ensuing investigation deepened this insight and first prison sentences were awarded, also the value frame of private and corporate wealth holder as well of the ordinary taxpayer changed.

This is also of importance for Zambia, since ZRA still believes rather in being a service provider than an executive branch, entrusted with the enforcement of the laws of the land (see VI/11.1). All of this endorses calls for an massive increase in qualified personnel.

5.4 Simple law, complex law

Now some remarks concerning the frequent suggestion to make tax law more simple are in place (see V/5.9) This, so proponents, will reduce the options for tax avoidance and evasion. As research also in the German Country study indicates (GER/Va), this is hardly possible: First, because of international regulations coming into play, but also for justice reasons: The situation of individual persons and businesses is very different, and complex laws attempt to do justice to those situations. If, on the other hand, laws would not do justice to those situation, private and corporate taxpayers could go to court and ask for a fair treatment, which would, in the case of their prevailing, necessitate the adjustment of laws which, after a certain amount of such lawsuits, would be as complex as it is today.

The question is rather, whether tax payer appreciate those “justified” and “justifiable” concessions by the legislator and pay their dues in honesty, or whether there is temptation to misuse those concession in their unjustified favour. This, however, can only be countered by adequate fines and penalties and adequate resources with which to enforce the valid laws of the land, i.e. adequate personnel of ZRA. As detailed in the preceding chapter (VI/11.1), it is a “credible threat-scenario” by potential controls and data leaks which enhances compliance, not mere appeals to tax honesty.

5.5 Wealth, inheritance and gift taxation

Deficits in wealth taxation were frequently addressed in this paper. Two taxes are not even on the horizon of the Zambian tax debate, even though there are strong arguments for it from a Catholic Social Teaching viewpoint: Outright taxation of wealth and the taxation of inheritances and gifts.

Normally (if at all, that is), only income arising from private, corporate and criminal wealth is taxed. There are reasons, however, to also tax the mere possession of wealth assets for two reasons: First, the value of wealth does not only lie in its capacity to generate income beyond labour efforts, but also in the power, social prestige and privileges it accords its owner by merely possessing it. Second, the value of any wealth asset does not merely reside it itself, e.g. the house, business or the field, but also the capacity of people contribute to make it work in favour of its owner: Peasants tilling the field, workers operating the business. And: Its work derives from publicly financed services and goods: Roads, electricity, public order and security, education of the workforce. For all those inputs of society contributing to the price tag at the Stock Exchange or Market Place, some payback is justified. As Manley argues, taxation should always be part of a larger picture[29] – an adequate Wealth Tax is just that.

A most crucial case not only from a Catholic Social Teaching viewpoint, but from general ethical consideration and even a well understood liberal background are stiff taxes on inheritances and gifts: Here, huge assets are passed on to people who did not do anything to create those assets, i.e. it is a massive increase in "unearned wealth". Children of wealthy families grow up already privileged: Do they also need those hefty presents? At the latest since Thomas Pikettys study "Capital in the 21st Century" (2014a) it is proven beyond doubt that inheritances are the main force behind wealth inequality, which in turn, also generates inequality in the political area.

The final question is to ask, what possible justification can be given that some owner of wealth can claim the command about his assets even beyond death: For centuries it was commonly understood that ownership ends with death.

5.6 Ownership and taxation of land

This finally leads, besides competition, to a second crucial flaw within the presently dominating capitalist concept: An exaggerated understanding and protection of private property. This is most obvious in the context of

[29] (2013, p. 15f.). For quotations see below, 7.8

land: Catholic Social Teaching postulates that private ownership even of land is the best way to develop its potential for the best of all (Nell-Breuning, 1980). It is also historically proven that private property, combined with a sense of responsibility towards the common good, is the best way to make use of land for all.

At the same time: If private property means that those possessing land can arbitrarily do with it what they like, even though it lies idle while others suffer, there is a grave ethical problem. How do we have to act if land ownership by the few hurts the many? What about land grabbing? Speculation with natural assets? Expulsion and exploitation of people with subsequent destruction of natural resources? How can natural goods such as air, water and soil belong to few rather than all in the first place?

Clearly, an important and urgent topic for Social Ethicists to deal with. A tricky issue for this research project in this context is the fact that, in varying degrees, the Catholic Church is also a major owner of real estate and real property in Zambia.

6 Alternative ways to finance the Common Good

Some brief complementary remarks following Chileshe and colleagues discussion of „alternative sources of developmental funding" besides taxation (Chileshe, Manley, & al., 2011, p. 6).

6.1 Reform of production, capital-labour relationship and trade

6.1.1 Principles

Clearly, a reformed national and international market would advance a reformed relationship between producer and customers on the one hand, and capital and labour on the other. To discuss this is beyond the scope of this research. Just two issues shall be highlighted and discussed:

- Catholic Social Teaching always emphasized the role of strong trade unions as a prerequisite that "labour" could deal with "capital" at eye level and remove the imbalance of power. This issue recently has a comeback, e.g. it is also among the eminent recommendations of the 2016 Report to the Club of Rome (Randers & Maxton, 2016).
- Catholic Social Teaching always emphasized the value of creation and natural goods to be for the service of all human beings and especially Pope Francis, in his Encyclical Laudato Si, emphasizes that the present capitalist system needs to be reformed under the guidelines of both social AND ecological justice. This implies putting a price tag on all those goods which so far are squandered and wasted because they are treated to be "free", e.g. water, air or biodiversity, to make production more ecologically viable.

6.1.2 Application

All that would require many activities, for examples sake large businesses shall be taken as example: Clearly, by using the guidelines above, a number of changes would need to be implemented in the Zambian Mining industry with the goal to pay better wages and to obtain better environmental protection.

But: If the mining industry would act accordingly, it would risk global competitiveness which illustrates that important reforms are not possible for one state alone. In other words: As long as one mining company anywhere in the world undercuts production costs of all others, it is difficult to compel industry of reforms without risking jobs. At the same time it is obvious that the continuation of the present system will lead to the collapse of the planet.

Public and politics thus is in an awkward position which is why almost nothing is being done.

Next, there are quite a number good-sounding initiatives where participation is voluntary or with weak monitoring and enforcement regimes, such as the EITI, CSR, Development Investment, Social Impact Investment, conflict mineral control regimes etc. Similar it is when IMF, G20 and Big business promises that now, after the World Financial and Economic Crisis, the want to take care for "more inclusive growth," all of which is claimed to be more beneficial than any form of taxation. In any of those cases, however, a close examination is in place to see[30]

- How the benefit distributes between the local community and the Zambian people as such, who are the true possessor of natural capital.
- How the benefit from CSR compares with revenue from a fair tax burden.
- Whether the TNC profits over proportionate from CSR, by beefing up its reputation with consumers.
- Whether it is more than window-dressing, if, for example, companies appearing in the Socially Responsible Investment Index at the Johannesburg Stock Exchange are otherwise known to be instruments of tax avoidance and evasion Etc.

In particular Manley (2013) points out the benefit a local community or region may acquire if a MNC settles down to exploit „new ‚green field' mines." One has to ask, however, at the same time whether road development or the establishment of schools and hospitals lives up to the benefits which a nation could have if adequate tax revenue is collected

[30] See (Andebo, 2014b), (Chilufya, 2015), (Manley, 2013) and GER/W/II.

from the very same firm. Manley argues that such acts of Corporate Social Responsibility, while at the same time tax avoidance is occurring, is inferior to tax revenue (p. 12f.). There are several reasons: First of all, properly paid adequate taxes would amount to more money. Decisions regarding CSR are non-transparent and often without adequate consultation of local people. Even if local people are involved one has to notice that the natural wealth exploited by those MNCs are owned by all Zambians, i.e. people living in provinces without natural resources are as entitled to the benefits of revenue as local people on the spot. Tax revenue is spread more justly and evenly, e.g. via the Local Municipality Solidarity System. In addition, tax revenue involves the participation of people and it involves transparency regarding decision making and spending.

6.1.3 Outlook

As the discussion surrounding the permanent indebtedness of Zambia indicates (see, e.g., IV/5.2), one of the crucial deficits of Zambia is its hardly diversified industry and its heavy reliance on the exploitation and export of natural resources ad, from there, its dependence on the ups and downs of world markets and exploitation conditions elsewhere. This also impacts upon Domestic Revenue Mobilization. What would be needed therefore is the restructuring of the national economy away from some giants in the mining sector and the growth of a network of diversified small and medium sized businesses, decreasing Zambias dependence from imports and generating goods and services which could also compete on markets, at least regionally. Here, too, thoughts could be spent whether those businesses which are still in the informal economy could not be transformed into something much more worthwhile and whether money thrown to foreign investors in the form of tax incentives could not rather be invested in strengthening the emergence of a solid domestic economical structure. But: If Zambia risks losing the little protection it has with its present customs and excise system by aiming for even more integration into existing global trade regimes (see above, 2.1), however, the situation for domestic economy could worsen rather than improve.

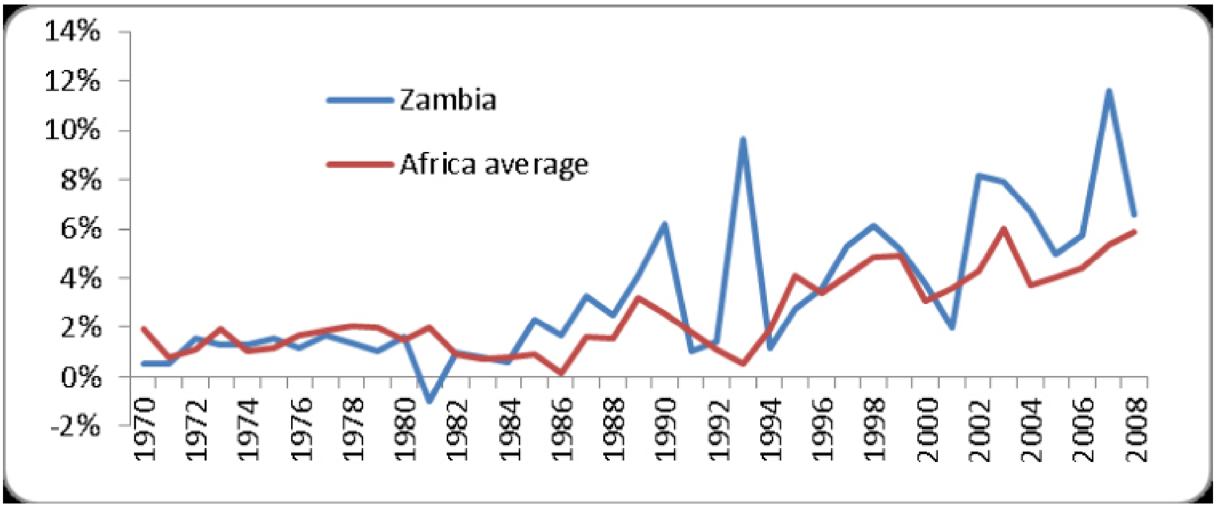
6.2 Privatization

For many decades, and integral part of the present economic paradigm, privatization was seen to be a step forward by selling formerly public services to private investors, e.g. the provision of drinking water. Over time, the revenue base of local authorities has eroded due to Government policies like the withdrawal of grants from some councils, and water services and housing, which were a major source of revenue but were privatized. Here again it is disputed, whether quality of services provided is improving or deteriorating and whether prize-benefit relationship is serving the common good or the interest of the investor.

6.3 Private Investment

What about private investment: Until World Financial and Economical Crisis 2007/2008, FDI in Zambia was above African average:

Graphic 14 FDI Inflow in Zambia as compared to Sub Sahara Africa 1970-2008



Source 17 (Chileshe, Manley, & al., 2011, p. 7)

This could indicate that tax incentives and other privileges are working. At the same time: FDI are volatile, as the World Financial and Economic Crisis illustrated and therefore it may be a risk to trust too much here.

6.4 PPPs

Public–private partnership (PPP) describes a government service or private business venture that is funded and operated through a partnership of government and one or more private sector companies. PPP involves a contract between a public-sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project. At the same time, government can make such deals attractive by providing subsidies, tax breaks or guaranteed minimal income for the investor. After finishing the project, income may be going jointly to government and private investor(s) or totally to the private investor(s), e.g. toll paid by vehicles after a road is being finished. It is highly disputed, who in the end benefits most from such arrangements and there is experience that those arrangements are going against public interest and the common good of all.

Both the Zambian government (Mutati, 2016) and ZIPAR (ZIPAR, 2017) are in favour of PPPs, but based on the experience of other states, e.g. Germany, this research cautions against them if there are no guarantees in place that it will, in the end, not cost the public more than projects implemented with other ways of financing (see, e.g. GER/IV/3.5.3).

6.5 Remittances

As indicated in (Chileshe, Manley, & al., 2011, p. 10) and chapter IV/2.5 of this country report, also remittances continue to play its role in the financial situation of Zambia and its citizens. In 2006, it was roughly estimated that Zambians abroad sent US$201 million in 2006 or 1.8 percent of Zambia's GDP (a little more than the Government got from the entire mining sector).[31] Another "guesstimate" in 2011 puts the figures for 2010 – i.e. only two years after the World Financial and Economic Crisis! – as high as USD 300 million.[32] Different from ODA and FDI, Remittances are countercyclical, i.e. more reliable and stable than ODA and FDI.

6.6 Developmental Aid

Since Zambia is not yet able to cover its needs from Domestic Revenue Mobilization (see above, 1.6), there remains dependence from ODA: In the 2017 Budget Speech, the Minister of Finance admitted that Zambia has to end a period of limited ODA support and will have to increase the level of outside assistance again in the form of direct budget support so that the reforms intended can be implemented (Mutati, 2016, p. 13).

6.7 Public Debt

Since all that still does not suffice to cover Zambias needs, the Zambian government continues to raise money by indebting itself domestically and abroad.

Zambia's Debt Sustainability Analysis Report produced by the Ministry of Finance, puts total public debt as a percentage of GDP at 32%, a level that is below the internationally accepted threshold of 40 percent. Although Zambia's debt is currently sustainable, the escalating rate of loan contraction suggests that the limit may be reached sooner than later. In a space of just two years (2012 – 2014), the government has borrowed from the international bond market US$1.750 billion. In 2012 government borrowed US$750million and in 2014 government borrowed another US$ 1 billion[33]. Although the borrowed resources are for infrastructure development, there is no mention of a proper financing strategy for repaying borrowed resources. The two Eurobonds mature in the 2020's;

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[31] See http://www.zambian-economist.com/2007/11/zambian-remittances-2nd-edition.html retrieved 27 March 2017

[32] http://ukzambians.co.uk/home/2011/11/05/zambians-in-diaspora-remit-300-million-yearly-a-quarter-of-zambia%E2%80%99s-gdp-who-cares/

[33] Chikwanda, (2014). *Oversubscribed bond is proof international investors have confidence in the Zambian Economy*.Lusaka Times. Retrieved May 22nd, 2014, from:http://www.lusakatimes.com/2014/04/12/oversubscribed-bond-proof-international-investors-confidence-zambian-economy-chikwanda/

particularly in 2022 and 2024 where the principal needs to be paid plus interest payments.[34]

In the 2017 Budget Speech, the Minister of Finance admitted that the external debt at the end of September 2016 stood at USD 6.7 billion, representing 35% of GDP. The stock of domestic debt in the form of Government securities stood at K 26 billion, another 12% of GDP and reminded his audience that "We must not burden the next generation with debt" (Mutati, 2016, p. 3)

6.8 Conclusion

The previous indicates again that global and national competition is a major obstacle in the way of solidly reforming the present capitalist system. Here, Zambia has to look for allies which can be found as the Paris Agreement on Climate Change illustrated already.

Until then, caution is needed towards everything Big Business and Big Money offers out of sheer goodness, pretending that it is better than a fair taxation: In a final analysis, this research concludes, that a fair share of taxation is the best way until the larger transformation of the capitalist system in accordance to social and ecological justice has been implemented.

But even for succeeding to collect its fair share of taxes, Zambia needs the support of developed country both regarding the global tax legislative framework as well as assistance in tax administration, which confirms recommendations given above in 3.3.

7 Conclusion and outlook for selected areas of concern

7.1 Result

As stated in IV/1, the goal of the research "Tax Justice & Poverty", as defined in its subtitle, the question is whether and how a more just taxation system can improve the situation of the poor. As this research indicates, this question cannot be answered simply. Rather, an entire bunch of instruments, addressing global markets, competition for capital, voluntary and mandatory alternatives to taxation needs to be considered as well and may, depending on the circumstances, as individual instruments or as an coherent ensemble, be better suited to reduce poverty than changes in tax laws and tax administration.

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[34] *PF Government Wants to Resell the EU Bonds – Yamba*. (2015, May 6). In: Lusakatimes.com. Retrieved 14 May, 2015 from http://www.lusakatimes.com/2015/05/06/pf-government-wants-to-resell-the-eu-bonds-yamba/

On the other hand: Given the complexity of global affairs and the improbability to achieve quick progress at issues outlined in 6.1 and the volatility of voluntary donations, changes in taxation are and will remain the most powerful instrument for states to reduce inequality, both by reducing the tax burden for the poor, but also by means of public investments and/or the redistribution of revenue. International and global tax cooperation may also develop into that needed reform of present global market capitalism into a system which is more in tune with the requirements of social and ecological justice.

Beyond the more specific recommendations which have been given "on the spot" in the preceding chapters, especially the segments dealing with "Discussion" and "Conclusion", some more general observations and recommendations shall stand at the end of this Country Report.

7.2 General guidelines for taxation

Primarily a country's tax system must provide sufficient funds for government expenditure programmes. However, the means of attaining this basic requirement to get a sufficient level of taxation matters a lot. This mainly relates to the structure and productivity of the tax system. A productive and well-structured tax system should espouse two basic principles. It should:

- minimise the distortion caused by taxation as economic agents attempt to limit their tax liability (the principle of 'efficiency'); and
- extract tax without disadvantaging or discriminating against any taxpayer (the principle of 'equity') (Nhekairo, 2014)

This is in tune with the propositions outlined in the chapter on Taxation Principles in the Introduction to this research (I/VI), which our team complemented with the "Principle of Enforceability": The best laws are worth nothing if they remain on paper only and are not enforced efficiently and equitably.

In the view of this research and in addition to other objectives, taxes can also be used to redistribute income in the economy to reduce inequality or as a tool for regulation to encourage or dissuade particular activities in order to enhance social welfare.

In the speech outlining the 2017 Budget, Felix Mutati, the Minister of Finance, outlined the Economic Recovery Program "Zambia Plus", which largely points into the right direction:

i. "Enhancing domestic resource mobilisation and refocusing of public spending on core public sector mandates;
ii. Scaling-up Government's social protection programmes to shield the most vulnerable in our society from negative effects of the programme;

iii. Improving our economic and fiscal governance by raising the levels of accountability and transparency in the allocation and use of public finances;" (Mutati, 2016, p. 2).

Among specific proposals are not only a stepping up of the fight against corruption, money laundering and drug trafficking, but also legal and administrative reforms in the area of Domestic Revenue mobilization as well as the promise of more information and participation of stakeholder in the case of revenue spending.

The Budget Speech, of specific importance because it outlines the programme of the newly elected, incoming government, contains painful reforms as well as revenue financed counterbalances for the vulnerable and poor. But does it suffice and does it indeed aim against some of the injustices outlined in this report?

7.3 Collecting more revenue for investment and redistribution?

In the 2017 Budget Speech, the Minister of Finance admits that the reforms which Zambia has to tackle in order to cope with present day challenges in the area of economic development, global competition and climate change will more likely than not impact on the vulnerable (Mutati, 2016, p. 11f.). Besides investing indirectly into general capacity building (education, development of women and empowerment of yout) and directly in health care and infrastructure there is growing need for direct support of vulnerable population groups, for example:

- Social Cash Transfer Scheme
- Food Security Pack
- Public Welfare Assistance Scheme
- Home Grown School Feeding Program
- Increasing a food reserve

All this will require more revenue and it has to come from somewhere.

And it is here where one has to ask how the Zambian government how it thinks about the requirements arising from the Principle of Efficiency and Equity (see 1.4) and the Principle of Ability to Pay which, as it is the opinion of this research, are not adequately reflected in the Zambian Tax System as yet, especially regarding the taxation of private, corporate and criminal wealth.

7.4 Awareness raising regarding tax collection and spending

ZIPAR stated in its report that one reason underlying tax avoidance and evasion of the more common taxpayer is rooted, among other things, in an acceptance problem of taxation (i.e. not knowing what is being done with it and how it is being used) as well as the complaint that there are too many taxes and too many high rates (Nalishebo & Halwampa, 2014, p. 11ff.). Both problems can be addressed by stepping up advisory, information services as well as tax literacy programs.

There is little knowledge about what taxes are being used for. As long as there is the misconception that it is only for graft and corruption the unwillingness to pay and to pay even more is understandable. As soon as they understand that it is spent on schools and streets and that spending is transparent and accountable willingness to comply will increase.

Right now, reports (e.g. by ZRA) and surveys (e.g. by ZIPAR or JCTR) confirm that there is little tax literacy in Zambia.

Efforts to improve tax literacy could start as early as in secondary education in school: and as there is a clear link between education and income, so there may be also a clear link between education and tax compliance:

Table 5 Income Distribution by Level of Education, 2015

Table 10.3: Income Distribution by Level of Education of Household Head, Zambia, 2015.

Education Level of Head	Household Income											
	Less than 50	50 - 150	>150 - 300	>300 - 450	>450 - 600	>600 - 800	>800 - 1,000	>1000 - 1200	>1200	Total	Average Income	Number of House-holds
All Zambia	**3.8**	**8.8**	**13.1**	**10.4**	**8.9**	**8.9**	**7.0**	**4.9**	**34.4**	**100**	**1,801.3**	**2,944,477**
Not stated	.8	2.9	2.7	4.3	6.2	4.4	2.0	3.7	73.1	100	5,089.8	47,971
Grades 1-7	4.3	12.1	17.7	14.1	11.4	10.5	7.7	4.9	17.2	100	798.5	1,165,925
Grades 8-9	3.9	6.5	11.4	10.6	10.4	11.0	8.6	7.3	30.3	100	1,239.8	582,017
Grades 10-12	2.9	4.7	7.9	5.8	7.0	8.8	6.8	5.2	50.8	100	2,173.0	563,116
A-Level	7.9	9.6	0.0	6.6	1.8	1.6	12.0	1.8	58.7	100	2,716.9	8,420
Certificate/ diploma	1.0	1.2	2.0	2.0	1.7	1.7	4.6	1.3	84.6	100	5,589.5	228,846
Degree or higher	.5	1.2	1.5	0.7	.2	.5	.6	.9	93.8	100	8,353.9	86,628

Source 18 (Central Statistical Office, 2016, p. 80)

The government confirms in the 2017 Budget Speech that education of importance and "key to ensuring emancipation from poverty", even ahead of its plans improve universal health coverage in line with Sustainable Development Goal Nr. 3 (Mutati, 2016, p. 9f.).

Improving education for all, therefore, can be eventually a win-win situation for all: Citizens will be better trained for better jobs and government eventually will gain more revenue, which in turn will improve once more the opportunities to build schools, streets and hospitals.

Needless to say that this only works if there is adequate transparency regarding efficiency and equity in tax collection as well as transparency, the provision of information and the inclusion of taxpayer into the spending of revenue (see 4.1)

Here, also the church is called for since the church has considerable outreach into schools and parishes and therefore could also contribute to tax literacy and awareness.

7.5 Tax system: Legal

What, now, does government consider regarding a more just and fair taxation?

In his 2017 Budget Speech, the Minister of Finance is aware that "many of our citizens and stakeholders have implored the Government to take measures to ensure that the tax base is broadened, made fairer and enhances domestic resource mobilization." He proposes a mix between direct and indirect taxes, for example (Mutati, 2016, p. 19ff):

- Statutory bodies should pay a 10% tax on rental income
- The Advance Income Tax will increase from 6% to 15%
- Restructuration of the current Turnover Tax System
- A restructures PAYE system, with higher exempt threshold and higher rates
- Higher Carbon Emission Tax and a new duty on plastic shopping bags
- An import surtax of 5% to protect locally produced goods from imports etc.

Some of those proposals are in order, for example, the increase in the Carbon Emission Tax and the Duty on Plastic bags.

Others call for protest, most importantly the changes in the PAYE regime (see V/2.1): While it is understandable that the tax exempt threshold has been raised to K 3,300 it is unintelligible why the threshold for the payment of the highest tax rate has been increased to only K 6,200, i.e. all annual income beyond K74,400 is taxed with the same rate of 37.5%.

Regarding the combating of fraud, the following proposals were submitted (Mutati, 2016, p. 22):

- In order to combat the non-issuing of VAT tax invoices, government wants to make Electronic Fiscal Devices mandatory to all VAT registered businesses so that business transactions can be monitored in real time. The question is, whether those devices are affordable, what happens if there is no electricity and whether they are safe from manipulation.
- In order to step up checks on the non-remittance of charged VAT to ZRA by some suppliers, checks and controls shall be outsourced to tax agents and collected on behalf of ZRA. The question here is whether outsourcing of tax rights are the best way or whether there is yet another risk of extortion and corruption.

Beyond that, the speech is weak since there is a mere appeal to tax honesty and the threat that offenses are punishable.

Besides that which is said, it is even more interesting what is not said: Nowhere in the Budget Speech had the minister advocated an increased staffing of ZRA.

7.6 Tax system: Administrative

As presented and discussed in Chapter VI, Minister Mutatis 2017 Budget Speech included a number of interesting proposals which are suited to prepare the ground for an improved enforcement of tax laws and revenue collection, most importantly

- Improvement in ICT equipment, data bases and training,
- registration of real property
- stepping up of the Block Management System,
- stepping up of the Mineral Value Chain Monitoring Project etc.

All this points into the right direction; which, again, makes it even more surprising that he did not address the need to employ more qualified staff which is needed to implement and enforce all the good laws and initiatives.

7.7 Informal sector

The informal sector is known for having some potential for more revenue collection, but this research has the opinion that all efforts here should be guided with a lot of caution due to the importance of the informal economy as a job and income generator for many people; which is also the reason why this research does not treat potential and de-facto losses in this sector to have the same gravity as those caused by (other) IFFs (see 2.1).

Beyond that, improving taxation is difficult and/or costly for the following reasons:

First of all, those in the informal sector "comprises unregistered and hard-to-tax groups such as small-scale traders, famers, small manufacturers, craftsmen, individual professionals and many small-scale businesses." (Phiri & Nakamba-Kabaso, 2012, p. 18)

Second, a number of those working there do not generate any surplus profit, but work for sustenance, i.e. there is nothing to tax (ibid., p.19).

Third, if tax is enforced upon SMMEs it might endanger growth of businesses since those inside the more beneficial tax band refuse to grow beyond in order to avoid higher taxation (ibid., p. 19f.).

Fourth, one has to be aware that taxes raised in the informal sector are as a matter of principle offending against the taxation principles of equity and neutrality. Therefore and as alternative one should consider "thinning" the informal sector out by motivating businesses to register for the formal employment sector and to engage business owner into a dialogue, pointing out the benefits one has from registration (Nhekairo, 2014, p. 27f.).

Fifth: The costs of tax collection in this sector is higher than elsewhere which suggests the deployment of scarce resources rather in more promising areas.

The previous also begs the question, whether investment in enforcement would be worth its while, or whether investment is more promising in other areas.

Not being sure about the previous, the following short/medium and long-term recommendations can be given:

Consider incentives which could lead to an increase in voluntary registration of people and businesses working so far in the informal economy. Here the situation of Zambia is different from South Africa, where only 30% of informal businesses have access to electricity, while 95% of formal businesses. In Zambia, the relationship is 76% vs. 95%. As outlined above (4.3.4), spreading the word of the advantages of having insurance could be an entry point to attracting worker and businesses into this registration process which then would include registration for taxation.

Looking at the established PAYE tax gap in the interface between formal and informal economy (see V/2.1 and VI/7.2), ZRA could start with those who are already registered wage earners and check their accurate declaration of income, before moving on to those who are self-employed. ZIPARs findings also suggest that there are more people employed in some way or other than it known to ZRA so far, and as soon as those are registered and known the PAYE payment “at the source” could be expanded and generate considerably more revenue (Nalishebo & Halwampa, 2014, p. 29f.)

A good way to capture tax revenue from the informal business is VAT and Turnover Tax. Here, however, first of all, there is need to strike a balance between raising more revenue under VAT and at the same time ensuring that VAT does not affect or burden low-income households. According to Dr. Kabaso’s research findings, broadening the VAT base to all sectors has the ability to raise additional revenue but has adverse effects on the economy, particularly on household welfare. Nevertheless, the adverse effects are muted if VAT broadening is accompanied by reduction in the VAT rate.[35]

[35] Kabaso, P. (2010). *Reforming The Value Added Tax in Zambia (Doctoral Dissertation, University of the Witwatersrand).* Retrieved 10 April, 2015 from

Into this context belong thoughts how the use of receipts in vending and sales could be improved (see VI/5.6.2)

There should be a gain in efficiency if the multiplicity of responsibility for collecting taxes in the informal sector is addressed. The ZRA needs to effectively engage councils in taxing the informal sector. The local authorities are closer to the small business owners in the markets and understand better their working environment. The tax collection costs and modalities can be discussed between the ZRA and the Councils. For instance, to provide an incentive to local authorities to collect more revenue the Council could be allowed to keep a percentage of what they collect. And: Political will needs to be strengthened and keep political cadres away from interference (Kabinga, 2015, p. 12)

In the long run, clearly, more thought should be spent on how the informal sector could be taxed better without putting too high a burden on households and the growth of micro or small businesses. To find an adequate approach would be facilitated by an increased dialogue with those being engaged in the Block Management System approach (see VI/4.4) and with those associations reaching out and being present in the informal sector

Table 6List of selected informal sector organisations and their membership

Name of Organisation	Year formed	Presence	Membership
Zambia Chamber of Small and medium Business Association	1996	National	13,000
Zambia National Marketeers Association (formerly Zambia National Traders Association)	1999	Kitwe, National	
Chibolya Carpenters Association	1998	Kitwe	12
Informal Traders Association	1997	Lusaka	80
Carpenters and Marketeers Association	1994	Lusaka	120
Women Entrepreneurs Development of Zambia	1995	Lusaka	300
Mansa District Business Association	2000	Mansa	70
Luburma Special Tailors Association	1997	Lusaka	54
Traditional Health Practitioners Association Zambia	1977	Mansa	45
Kantemba Association	1999	Kalulushi	280
Street Vendors Association	1998	Ndola,Mansa	657
National Arts and Craft Association	1970	Ndola, Kitwe, Mufulira	250

Source 19 (Chileshe, Manley, & al., 2011, p. 76)

Nhekairo points out to two more approaches which have been successful in other African states, e.g.

- Burundi: Specific Service Centres for businesses
- Ghana: Tax Discs for public vehicles, i.e. making mandatory the display of the Tax Disc besides the License Disc.

Last not least, of course, one should be aware that there are wealthy individual and businesses in the informal sector who generate a lot of

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http://wiredspace.wits.ac.za/bitstream/handle/10539/9626/Abstract_Reforming%20Value%20added%20tax%20in%20Zambia.pdf?sequence=1 turnover and profit – e.g. house-owner renting out or businesses – of whom little is known so far. To identify those and to bring them to shoulder their fair share for the common good, increasing checks and controls in two areas should be considered:

- First, urban SMMEs (Phiri & Nakamba-Kabaso, 2012, p. 20) where the fear of potential checks alone would increase registration and/or compliance.
- Second, if information about larger businesses in the informal sector reach ZRA, e.g. via local tax collecting agents or via the Block Management system.

7.8 Mining Sector

With that, we are back at foreign-owned and operated TNCs in the mining sector being of major concern when it comes to losses due to aggressive tax avoidance and evasion. Those losses are due to revenue spent on the sector and/or not collected from the sector due to tax concessions and subsidies, they are due to a sophisticated exploitation of complex legal norm and they are due to outright evasion and cheating.

While the 2017 Budget speech does not contain any tax reforms for the mining sector but rather promises "a stable and responsive mining tax regime." At the same time, the Minister of Finance leaves no doubt that the Mineral Value Chain Monitoring Project will be "fully implemented … to enhance transparency in the sector." (Mutati, 2016, p. 6) – both intentions are good and it can only be hoped that both are being followed up with comparable rigour.

Regarding tax incentives, nevertheless, Nhekairo is right when he concludes that it is not so much the question of incentives yes or incentives no, but "to evaluate the attainment or fulfilment of the benefits of that investment, that were envisaged when the incentives were granted." (Nhekairo, 2014, p. 24). After all, those TNCs operative in Zambia are also operating elsewhere and therefore the macro-economic links and situations elsewhere in the world need to be taken into account, whether we like it our not. More important is, of course, the question, whether the benefits obtained in return are rather short-time or long-time and lasting.

Does the present mining regime live up to the criteria of stability and predictability? Here one has to be aware that inspite of the ups and downs in mining taxation regimes, individual Fiscal Stability Agreements provided investors with this predictability inspite of legal changes – at times for decades to come (see V/3).

The existing legal provisions seem to come closer to a good compromise between the interests of Zambia as a nation and interests of foreign investors, except, perhaps a better fine-tuning of the variable rate royalty which enables the state to raise high revenue at times of high world market prices and moderate revenue in times of downturns. This having happened it raises the question, whether Fiscal Stability Agreements between new prospective individual investors and the state are still needed and justifiable. Regarding all other MNCs which profit already from tax concessions, Fiscal Stability Agreements and other benefits the question remains, whether they live up to the agreed laws and obligations applying to them and whether they pay their taxes due – experiences and insights of tax auditors and NGO publications such as those of Action Aid raise doubts to that.

Therefore, thought should be spent how to limit individual fiscal arrangements, which restrain efforts to enforce existing laws, and come back to a tax regime applying to all. A fiscal overhaul review and adjustment to the whole extractive sector will allow identification of loopholes in some sector (forest sector and also precious minerals mining activities) for purposes of taxation and charges.

Provided, transparency conditions will be improved, making it easier for tax auditors to access accounts, an increase of high skills training and programme activity support to mining Inspectors will enable them better to carry out extensive assessments on the geological specifications, production costs, output levels and other related technicalities to ensure mining operators' statements are verified and appropriate revenues collected by government.

The crucial question is, whether the present mining tax regime compensate Zambia for the depletion of natural capital? So far, 5.6 million tons have been extracted while further 20 million are known to still exist. The compensation occurs via the Mineral Royalty. Here the question is, whether the present rate of 6% (?) is indeed too high and should be complemented with a variable rate doing justice to the ups and downs of market volatility (Manley, 2013, p. 39ff.). To narrowly focus on tax rates, however, would not be wise.

Manley emphasizes, that taxation related issues should always be part of a larger picture: One should consider environmental damage as well as working conditions or the fact, that for foreign investors often non-tax factors are more important for investment decisions than tax rates, e.g. "the lack of beneficiation industry, relatively low levels of skills development among Zambians, opaque regulation of mining exploration and infrastructural bottlenecks in road, rail and power." Obviously, the remediation of those problems requires investment by the state, and the money for that investment would have to come, among others, from tax revenue. Which is why a reasonable taxation is also in the long time interest of foreign investors which, given the long-term nature of investment in mining industry, would coincide with the interest of the state to collect revenue for the education of its people and the development of the country. "Reducing tax rates to compensate for weaknesses in other areas can be self-defeating", Manley argues (2013, p. 15f.).

And what about voluntary contributions of TNCs to the local common good? Here and in the EU, new Non Financial Reporting obligations apply since 2017:[36]

> Large public-interest entities (listed companies, banks, insurance undertakings and other companies that are so designated by Member States) with more than 500 employees should disclose in their management report relevant and useful information on their policies, main risks and outcomes relating to at least
>
> - environmental matters,
> - social and employee aspects,
> - respect for human rights,
> - anticorruption and bribery issues, and
> - diversity in their board of directors.

At the same time, "there is significant flexibility for companies to disclose relevant information (including reporting in a separate report), as well as they may rely on international, European or national guidelines" (ibid.), which suggests that in the glossy magazines many information may occur which are not really close to the truth on the ground. Given the ill defined issue, who exactly is in charge of monitoring and evaluating efforts which now are being reported, the suggestion is forwarded that this could be linked to tax auditing, i.e. a closer cooperation in tax matters could also shed light in the implementation of these goals.

There are other transparency and control regimes such as those for Blood Diamonds, Conflict Minerals or EITI (Andebo, 2014b) – the weakness being that there is little possibility to monitor and verify information given

Finally, the question is asked, whether, in the interest of the public, the present international regime regulating the taxation of TNCs (DTAs, the BEPS regime…) is not too complex to yield good results and that, in the end, TNCs and their owner will always win when it comes to opportunities to lower their tax burden both in developing and developed countries. Yes, also in the latter: Since Luxembourg Leaks and subsequent data leaks it is also obvious, that TNCs are artificially lowering their tax burden even in the state of their proper registration and headquarter.

For that reason the replacement oft he present regime with something totally different and much simpler should be considered and advocated in the interest of the many, namely something along the lines of the CCCTB

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[36] http://ec.europa.eu/finance/company-reporting/non-financial_reporting/index_en.htm

initiative of the European Commission[37] or a Unitary Taxation/Formulaty Apportionment taxation of MNEs.[38]

7.9 IFFs

Given the fact, that the largest share of IFFs are known to be within the commercial sector, the previous suggestion would already be a major improvement and would greatly improve the revenue for Zambia.

Here, of course, it should also be borne in mind, that the amount of estimated IFFs does not equal the potential tax revenue since it is unclear to what extent those flows are illicit, and therefore taxable, and which are illegal and criminal and could therefore be confiscated and would additional raise money from punishments and fines. Illicit IFFs, which could be brought back inside the formal financial and economic system would, however, generate benefit even beyond tax revenue insofar that they could be invested locally, therefore increasing job opportunity, investment and consumption.

And as improved cooperation and data exchange of ZRA with other agencies such as ZDA or PACRA increases tax compliance, an improved cooperation of ZRA with police, prosecution, Anti Corruption Commission and other authorities will improve the investigation of IFFs.

Specific insights into criminal IFFs, this research endorses relevant proposals put forward by expert institutions such as

(Kar & Spanjers, 2015), (High Level Panel, 2015a), ADB….

The Zambian report also endorses the view taken in the German Country Report, as well as among the NGO community, to enact strong Whistleblower protection, as long as adequate transparency regarding the trickery of private, corporate and criminal wealth holder has not been amended (see GER/VII/5.10)

7.10 Conclusion

Many areas in Zambia can rightly be classified as “hard to tax”: Large private and corporate wealth holder as well as SMMEs and other actors in the informal economy, rural subsistence farmer or urban dweller and landholder. Given the multiplicity of challenges in need of being addressed simultaneously, there is always the question, where to start and with what to start.

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[37] http://ec.europa.eu/taxation_customs/consultations-get-involved/tax-consultations/relaunch-common-consolidated-corporate-tax-base-ccctb_en

[38] https://en.wikipedia.org/wiki/Formulary_apportionment

Obviously, a number of good laws are in place and the problem is equal transparency for all and the right to information. Once improvements are made possible here, tax officials have a much better insight into the situation and are much better enabled to make their own priorities.

Next, priorities can certainly be linked to size and area of residence: Here, obviously, it is more useful to spend personnel and resource on the taxation of large private, corporate and criminal wealth holder than on the ordinary citizen. The former and their counselors and lawyers are much better placed to hide their wealth and lower their tax bill by making use of legal complexities than ordinary citizens. Furthermore, infrastructure for registration, investigation and enforcement is much better in urban than rural areas, which makes investment in the former more worthwhile than into the latter.

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