COMMUNIQUE on the 2024 Zimbabwe National Budget

The United Zimbabwe Alliance (UZA) has reviewed the 2024 budget proposal as presented by Finance Minister Mthuli Ncube. We can only conclude that the Minister is out of touch with the economic realities which Zimbabweans are grappling with. In his presentation, the Finance Minister duely acknowledges that Zimbabweans are faced with a challenging fiscal year in 2024 characterized by a sluggish economic growth rate projected at 3.5%. This admission is predicated upon the Minister's acknowledgement of the anticipated impact of the El-Nino phenomenon, forecasted to impact the forthcoming 2023/24 summer cropping season, thereby exerting adverse effects on agricultural output. Additionally, the Minister attributes the economic strain to declining commodity prices - attributable to ongoing global economic slowdown.

Within his budget proposal, the Minister, in a show of arrogance, has introduced a punitive tax framework targeted at the very populace he has previously acknowledged as grappling with challenging economic circumstances.

Government's efforts to invest in the maintenance and rehabilitation of infrastructure are duly acknowledged. Moreover, as UZA, we recognize and welcome the prioritisation of financing of infrastructure projects. However, it is imperative to state that such endeavors should never come at the expense of the citizens of Zimbabwe. The current budget, as it stands, does not appear to enhance the welfare of the civil service, and discernible benefits for the economically disadvantaged in terms of improved social services are notably absent.

Taxation of residential properties (Wealth taxes)

The Minister proposed a *wealth tax* ostensibly "to ensure that every person contributes to the fiscus in line with their level of *income*" - by levying 1% of market values of residential property (with a stipulated minimum value). This, however, does not effectively and fairly address the disparity in the levels of *income* (as defined) at source level – which level must be addressed at "*income* generating" points (as is largely already the case with our tax regime) and not at asset ownership stage, unless such property is *income-generating* or is disposed of - in which case Capital Gains Tax (CGT) or Estate Duty are levied respectively. A combination of CGT, Estate Duty and property rates already address the Finance Minister's newly found appetite to tax capital assets. This overburdens taxpayers who are already paying property taxes in the form of rates to their local authorities.

Zimbabwe already has a plethora of taxes that include, *inter alia*, Income Tax, Value-Added Tax (VAT), (CGT), Pay As You Earn (PAYE), Estate Duty and numerous other levies. There is therefore no justification to warrant a new ambitious "capital" tax (of limited administrative means), that in fact, debatably addresses "income levels" as alluded to by the Minister, but addresses asset levels - irrespective of their income generating status. A wealth tax, in these circumstances, and in a country that purports to be open for business is unreasonable as it may lead to capital flight, and potentially will discourage investment. This is particularly detrimental to the real estate industry - a pivotal financial sector crucial for economic recovery.

Value-Added Tax (VAT) registration threshold considerations

In the pursuit of generating more tax revenue through consumption taxes, the Minister proposed to lower the VAT registration thresholds. However, it is crucial to acknowledge the potential ramifications, particularly for small to medium enterprises (SMEs) as these are the catchment targets. We, as UZA, recommend that the VAT threshold not be decreased for service-oriented companies in particular. Doing so would impose an undue burden on these entities, hindering their ability to navigate the challenges of VAT compliance. Lowering the threshold risks impeding the growth of small startups by subjecting them to VAT obligations, especially because their unique circumstances are such that goods and services purchased for providing taxable supplies or purveyances are

typically minimal. Conversely, for non-service companies, a reduction in the threshold may be considered without significant concerns. This approach allows for flexibility in adapting the VAT registration requirements based on the nature of the business, recognizing that service companies may have different capacities to manage VAT compliance, cashflows, liquidity and consequently their going concern status.

Budgetary allocations

As a nation not currently engaged in conflict, and given the dire condition of our healthcare infrastructure, the allocation of a relatively substantial portion of the budget - exceeding the Ministry of Health and Child Care's allotment by approximately 50% - to the Ministry of Defence lacks rationality. It is equally confounding to note that War Veterans received a budgetary allocation surpassing that of Industry and Commerce by more than 41%, a discrepancy that is outright illogical. Even more baffling - given our chronic energy and power crisis, is the allocation to Energy and Power Development, receiving a paltry $90,083, which stands as the lowest among budgetary allocations.

Fuel levy and toll fees

The proposal by the Finance Minister to increase the Strategic Reserve Levy by US$0.03 for diesel and US$0.05 for petrol, coupled with an upward revision of toll fees on premium roads, is disconcerting. Such measures place an additional financial burden on citizens already grappling with economic challenges that include the proposed extractive taxes highlighted in this communique.

The contradiction between Zimbabwe's "open for business" mantra and the actual content of the budget presentation is extraordinary. Contrary to fostering an environment conducive to attracting business and investment, the budget introduces measures that undermine confidence in the economy.

The proposal by the Finance Minister requiring manufacturers and wholesalers to stop transacting with non-VAT vendors raises concerns about the adverse impact on SMEs and the broader economy. It overlooks the vital role played by SMEs in the development of countries like ours.

The budget speech failed to recognise the instrumental role of SMEs in economic development and neglected to promote local production and import substitution. The budget's failure to emphasize infrastructure development and economic expansion is a missed opportunity. It also lacks policy positions discouraging imports and promoting domestic goods, which impedes the growth of local industries.

On a positive note, acknowledgment of tourism's critical role in the economy and the allocation of Z$71.1 billion to spearhead tourism development and marketing is a commendable step. The extension of the Tourism rebate further encourages investment in this sector. In the same vein, the proposed mining levies represent a positive move to address exploitative practices, particularly for resource extraction. However, ensuring fair pricing for lithium exports is crucial to prevent undervaluation.

In summary, Finance Minister, Mthuli Ncube's budget presentation leaves much to be desired. These concerns must be carefully reconsidered to ensure a more balanced and comprehensive approach to Zimbabwe's economic challenges and the recovery efforts. Also critical is the impact of the new taxes on the low tax morale in the country after decades of wastage and at times downright plunder of tax revenue by the state. Zimbabweans have a chronically low tax morale caused by the abuse of their tax revenue. Taxation is essentially a social contract between the state and its subjects, the taxpayers, wherein the state practically attaches the property of the taxpayer and pledges in return to conscientiously use the revenue realized for the provision of public services to the taxpayers. If the state fails on its obligations in terms of this contract, low tax morale arises and the legitimacy of new taxes is seriously questionable.

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