



CSPR STATEMENT ON THE SUSPENSION OF THE WITHHOLDING VAT (WVAT) MECHANISM

The Civil Society for Poverty Reduction (CSPR) notes the recent communication from the Zambia Revenue Authority (ZRA) informing the public that, effective 1st August 2025, the Withholding Value Added Tax (WVAT) mechanism will be officially suspended. This decision follows the successful rollout of the Smart Invoicing System, which ZRA states has improved the efficiency, transparency, and effectiveness of VAT compliance and revenue collection.

While we acknowledge and commend the ZRA for embracing digital innovations aimed at modernizing tax administration, it is CSPR's view that the WVAT mechanism despite its noble intent to capture non-compliant VAT payers did not achieve its intended objectives. The mechanism faced significant administrative inefficiencies, including delays in VAT remittances by appointed agents and the inability to monitor financial transactions effectively, particularly in informal and semi-formal market segments.

The Nation may recall that to support the WVAT implementation, ZRA had appointed agents to collect VAT on its behalf from traders, but administrative challenges such as delays in remittances were experienced, further frustrating the efforts of the tax administrator through this mechanism. The traders were equally inconvenienced as penalties accrued once the filing was not made on the due dates by the collecting Agent.

In some instances, traders were made to start following up with collecting agents to remit their taxes on time, which was an inconvenience to their business operations. In the extreme cases, the traders were forced to file as the appointed agents withheld their VAT beyond due dates, thereby incurring an additional tax cost. Our view is that, given its lack of efficiency and the challenges associated with not being able to monitor all financial transactions for goods and services on the market, ZRA should completely decommission the WVAT mechanism as opposed to merely suspending it. The physical interface and traders and collecting agents was also another barrier to the success in the implementation of the WVAT mechanism, as it provided a platform for compromise.

Further, whilst we note progress in the implementation of the smart invoicing system, there are notable challenges with achieving full tax compliance, if this is not backed by strengthening the understanding and capacity to use the system. It is a known fact, and many "purchase tests" in trading places have consistently shown that a trader may choose to sell goods outside the tax system without using an invoice (example Kamwala). This is supported by the fact that not all traded goods are monitored by ZRA from the point of uplift, whether through imports or domestic manufacturing. Traders will still circumvent the system by choosing not to issue smart invoices to buyers unless the buyer demands the invoice. This still poses risks of non-compliance. Research in some countries, like Rwanda, where Smart invoicing is being implemented, showed that smaller taxpayers faced practical difficulties in adopting Electronic Billing Mechanisms (EBMs), including expensive charges, intermittent connectivity, and uncertainty over correcting mistakes.

Without investments in shared data systems amongst all regulatory agencies and ZRA, cheating the system will remain a major challenge. Currently, the lack of shared data platforms presents significant challenges for the smart invoicing system to work and deliver the level of efficiency needed to improve tax collection. ZRA does well to learn from other jurisdictions to look at opportunities to improve control measures, including working with key institutions and regulators to ensure all goods entering the supply chain are coded at the manufacturing stage and tracked for ease of recording and monitoring the goods for tax purposes. Further, the smart invoicing system is an internet-based system (with no business continuity plan) that requires good internet infrastructure coupled with capacity-building support for improved literacy amongst Zambian traders to use this system effectively. We would like to caution ZRA that in some instances, traders might simultaneously adjust their reported costs by more than the increase in sales. This has the potential to partly negate the overall revenue effect. This is an indication to Tax administrators that traders might respond to enforcement shifts by also shifting their tax-evasive behaviour to less verifiable margins, hence, preventive and mitigatory measures have to be in place even as the full rollout of the smart invoicing will be effected. Further, traders in rural areas may experience more challenges in this regard and may not be willing to invest in ICT-related services. This poses risks of unfair competition for traded goods as an unintended outcome if not properly addressed, including the possibility of increasing the cost of doing business, especially for traders that may not have any ICT infrastructure to access the system initially.

We also observe that ZRA may need to make clear what the transition period is or should be to ensure that aspects of support to traders are clearly provided for maximum efficiency. It is our view that attempting to achieve tax compliance in the absence of enforcement is just extending the problem.

Conclusion

CSPR supports the modernization of Zambia's tax administration but emphasizes that technology alone is not a silver bullet. For meaningful reform, it must be paired with robust enforcement, inclusive capacity-building, clear policy direction, and inter-agency collaboration.

We remain available to collaborate with the ZRA, Ministry of Finance, and other stakeholders to ensure that these reforms promote equity, reduce poverty, and improve domestic resource mobilization.

Isabel Mutembo Mukelabai

Executive Director