2006

The Implications of tax reforms on domestic revenue mobilization in Zambia 1973 - 2005

Phiri, Ezekiel

University of Dar es Salaam

Implications of tax reforms on domestic revenue mobilization in Zambia 1973-2005

Ezekiel Phiri

Degree of Master of Arts (Economics)

University of Dar es Salaam, College of Social Sciences, 2006

The role of tax reforms is critical in promoting sustainable economic growth and development in a country such as Zambia, characterized by low savings, narrow export earnings and thin tax bases. Tax reforms not only help a country raise the much needed domestic revenue more efficiently but also lead to increased confidence in government policy by both taxpayers and the donor community. This paper analyses the impact of Zambia's 1992 tax reforms on its domestic revenue mobilization. The Study uses the conventional proportional adjustment (PA) method to generate adjusted revenue series for computing elasticity estimates. An offshoot version of the PA method is also applied to see the effect of taking into account budget projection errors. The empirical results indicate that reforms have marginally improved the productivity of the tax system in general but international trade taxes have been affected negatively. The alternative PA method seems to generate consistent but lower elasticity estimates. However, the impact of reforms needs to be analyzed in light of the influence of other macroeconomic variables. The implication for policy is that to harness the gains from reforms, focus should he put on reforming bases for income taxes as income bases tend to complement other bases.