



## **Media Statement by the Lesotho Revenue Authority Commissioner General Mr. Thabo Letjama on the Outcome of Revenue Collection for the 2013/14 Fiscal Year**

**Date: 2<sup>nd</sup> April 2014**

**Venue: LRA VAT BOARD ROOM**

**Event: End of Financial Year Media briefing**

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Once again it gives me great pleasure to present to you the Revenue Performance Report of the Lesotho Revenue Authority for the year ending 31<sup>st</sup> March 2014.

### **Overview of 2013/14**

As it was the case in the previous financial year, 2013/14 presented even more challenges to all of us in the LRA family, the business community and the Taxpayers in general. On the 8<sup>th</sup> of April 2013 in a similar gathering I announced that we had surpassed our combined revenue target by M33.7 million. The total collection for that year stood at M 3, 995.4 million or 3.99 billion against the target of M3, 961.7 million or M3.9 billion.

Today I announce to you that this financial year, 2013/14, we have remitted M 4,421.96 billion to the Government of Lesotho. I wish to highlight that



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for the very first time ever we were able to reach the 4billion mark. This has been marked to be the highest level of remittances in LRA history. It represents an increase of the cumulative remittances during the same time last year of 11 per cent (%), which is a clear evidence of a proportional improvement in tax collection. Though we applaud the 4billion mark we did not meet the combined revenue target of M5, 066.7 billion as we have a deficit of M 644.8million.

The tax revenue (LRA) to GDP has been growing steadily from 18 percent in the first year of the LRA to 20.5 percent in 2012/13. The 2013/14 target of M5.06 billion pushed this ratio to 23 percent.

### **Income Tax**

- Income tax annual target was M3,147.74 billion;
- Income Tax remittances stand at M2,689.57 billion;
- Income Tax missed its annual target by M458.17 million.

Income Tax comprises Company Income Tax (CIT) and Personal Income Tax (PIT)

### **VAT**

- Value Added Tax (VAT) annual target was M 1,918.99 billion;
- Value Added Tax (VAT) remittances stand at M 1,732.39 billion;
- Value Added Tax missed its annual target by M 186.6 million;

VAT comprises Inland and Import VAT



## Reasons for Underperformance

In order to be able to effectively determine why the LRA is so far from its targets, analysis was carried out on the feasibility of the target based on the performance of the national economy. These investigations showed that the local economic assumptions that formed the foundation of the target did not come into being as per their forecast. Reasons that led to underperformance are:

1. Ambitious expectations of economic performance (M21, 282.7 GDP).
2. Underperformance of the Mining and Quarrying, construction, wholesale and retail and the transport sector.
3. Government's capital budget on projects not being fully implemented.
4. Downward adjustment of the budget by the Ministry of Finance (MoF).
5. Tax base adjustments.
6. Impact of Organizational Structure Alignment to Strategy (OSAS) on revenue collections.



## **Ambitious Expectations of Economic Performance**

When the targets were set, GDP was expected to grow at the rate of 11% from M21, 282.7 in 2012/13 to M23, 542.7 in 2013/14. The actual GDP in 2012/13 was however M19, 465.9. The base upon which projections were done was too far from reality, which resulted in a 7% over statement of economic performance. Economic performance has not reached the level of performance which was projected, which lead to relatively low tax collections because tax revenue and GDP are directly correlated.

## **Assumptions used in 2013/14 Target**

In addition to the ambitious expectations of the economic performance, tax collections for the 2013/14 financial year were projected to grow at 18 per cent. This is one of the highest growth rates that the Lesotho Revenue Authority (LRA) has had to pursue since its inception. Government PAYE was expected to grow at 26%, private PAYE at 22%, CIT at 12%, VAT at 15% while other remaining taxes were expected to grow at 16%.

The forecasts were arrived at assuming growth in operating surplus; compensation of employees; government expenditure on capital goods and on goods and services; as well as private consumption. Three of these assumptions that did not materialize; Government PAYE only grew by 22% (4% variance), Private PAYE 8% (26% variance), while CIT on the other hand declined by 18% (30% variance).

## **Diamond Mining**

Diamond Mining contributes about 8 per cent of the overall revenue collections of the LRA. Letšeng Diamonds is still the only diamond mine that pays CIT, although other mines also contributes WIT and PAYE. In the first two quarters of three quarters of 2013 calendar year the performance of Letšeng Diamonds grew very slightly, at 7 per cent, compared to the



same periods in the previous year. This 7 per cent growth was lower than the projected 19 per cent growth at the beginning of the year. However, in the last quarter of 2013 the exports of Letseng grew by 84 per cent compared to the same quarter of the previous year. Such an improvement in performance was due to a 10 per cent increase of diamond prices in 2013. Letseng has thus expanded production to take advantage of the rising prices. However, this price recovery and production expansion only took place towards the end of the year; hence it will have a minimal effect of the CIT payments of the company. The positive outturn will not be seen in the current tax collections, but in next year's collections.

There are several other reasons that led to the decline in the output of diamond mining;

1. Mothae mine was temporarily closed in 2013. This is one of the mines that have historically relied on petroleum generators for energy. The government had planned that this mine would be connected with electricity in the current year, but when such a project was put on hold such a mine decided to close down temporarily until the energy supply problem has been resolved.
2. In the 2013/14 budget speech the Minister of Finance had announced that Letseng Diamonds was in the process of building a diamond cutting and polishing centre that would contribute significantly to the value addition of diamonds. Such a project would employ 70 people and increase the company's revenue by 3.5 percent. However, the awarding of a license for this activity has not been effected and this has put on hold the investment initiatives of this company.

## **Stagnant Construction Performance**

Construction contributes 8 per cent of the total LRA collections. The year 2013/14 preceded a year (2012/13) of heavy construction activities which included the extension of Pioneer Mall and the construction of Maseru Mall. The completion of such huge projects led to a decline of private construction in 2013/14 and consequently low revenue collections.



The government of Lesotho's funded capital expenditure is also the major contributor of revenues sourced from construction companies. Of the total Government capital spending it is assumed that 50 percent is spent on goods and services that attract VAT.

In December 2013 cumulative gross sales of taxable construction was M870 million against M1, 344.9 million in December 2012. This represented a 27 percent decline and therefore a negative impact on VAT.

## **Wholesale and Retail**

The construction sector is linked to other sectors such as Wholesale and Retail sector and the transport sector as these provides the inputs into the construction sector such as fuel, hardware material and transport. The wholesale and retail sector contributes 25 percent of the total revenue collections by the LRA. In December 2013 the cumulative gross sales (an equivalent of Gross Domestic Expenditure) was at **M25.8** billion and was only 5 percent above the gross sales of the previous year at the same time of **M23.9** billion, a growth of only 5 percent against a projected growth of 18%.

## **Government's capital budget on projects not being fully implemented**

It has been reported that the Government's expenditure on Capital Projects was much lower than was anticipated, registering an underperformance of about 20%. This has resulted in VAT underperformance of 8%.

## **Downward adjustment of the budget by the Ministry of Finance (MoF)**

During 2013/14 financial year, the MoF was urged by the IMF to revise down their budget on compensation of employees. The budget was



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therefore revised down by 5%, implying and 95% execution of compensation of employees. This has negatively impacted on PIT collections.

## **Government Payroll**

The employees of the Government of Lesotho contributes numbered 42, 021 by the end of June 2013. In the 2013/14 budgeting the Government had planned to spend M111.1 million for new employees in to the Government payroll. However, in the 9 month of April – December 2013, only M13.5 million had been spend on new employees and the projected outturn for the whole year (2013/14) is M16.2 million. Though the latest figures of the GoL payroll are not available but the little money that was spend out of the budgeted indicates a very little employment growth.

## **Tax Base Adjustments**

A very important factor was left out in the target forecasting process: tax targets were set based on particular assumptions that were considered when proposing a tax policy change. When the policy recommendations are partially implemented this creates a distortionary view of what tax collections ought to be. The tax base had to be adjusted immediately after the budget speech in order to create a balance between the planned tax collections and actual collection. This was however overlooked. Secondly, the indexing which was omitted since fiscal year 2010/11 has also resulted in an inflated tax base. The result of the omission has led to an overstatement of PIT by M119 million, creating an illusion. There is also an issue of a 7% inflated GDP which needs to be looked into.

The same result will recur in the 2014/15 collections. Policy changes were proposed, but those were partially implemented. This already posed a



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challenge in the taxes that are going to be collected in the next financial year in that there are revenue losses that are going to be incurred but may not be recovered anywhere.

### **Impact of OSAS on Revenue Collections**

The OSAS project took longer to implement than expected and impacted the organization as during the first two quarters of 2013/14 some departments and units operated without middle management and not everyone had been placed yet.

### **Compliance Culture and Other Challenges**

I must indicate that we see an increase in good compliance behavior to tax. Overall we have come to see on a month to month, more and more people registering for tax. We also have started seeing more and more people, filing their tax returns and making payment on those.

However, we also are aware that non-compliance is high in some sectors. We have come to see taxpayers who deliberately devise schemes to evade tax and defraud the Government. We are aware of people who do not bother filing their returns, people who file but under declare incomes or turnover, people who also declare the right amount but not pay on time. Some of the taxpayers make arrangements for payment of their debt only to dishonor those arrangements. Some of the taxpayers lodge endless appeals, hoping that this would help them delay the payment of taxes due when they are due.

The above non-compliance behaviors are at the least immoral. They rob our countries of its ability to provide for its citizens. They defeat the very purpose of taxation, which is to ensure proper redistribution of income to avoid a country where few go with a lot, while the rest go without. The taxes evaded deny government to help build hospitals, to provide better pensions for the elderly, to send more students to universities and to even create more jobs for the youth of this country.





We wish to appeal to the entire nation and to every Mosotho that they must collaborate with us and help us build a better Lesotho by paying their fair share. Lesotho cannot grow if the instances of gross non-compliance I have referred to above continue.

### **The interventions that are being implemented:**

In order to ensure that we promote voluntary compliance, and get to a stage where everyone will comply in the long run, we have and continue to put in place the following measures:

- Automation of all our processes, from customs to inland taxes.
- Completed the restructuring process of the Authority to make it more effective in identifying and dealing with non-compliance.
- Developed a new strategy that is being implemented from this month through to 2019.
- Robust Taxpayer Education and marketing campaigns to inform taxpayers of why we are here and how they can help us for the success of Lesotho.
- High Level Tax Clinics/Talk Shops With various taxpayer groupings
- Implementing recommendations of 2013 Customer Satisfaction Survey.
- Putting various enforcement operations and this will also include industries such as import motor vehicle dealership which seems to be lacking behind in terms of compliance.

### **Conclusion**

May I take this opportunity to thank all the Taxpayers who paid their fair share of taxes during 2013/14 financial year. It is through your contributions that even under these trying times we have managed to reach the 4billion mark.



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The LRA Board of Directors and Management therefore applauds all Taxpayers, LRA staff and other stakeholders who have made a contribution as it demonstrates that working together, we can achieve more and thus fulfill our promise to the nation.

It would be remiss of me not to publicly thank the LRA Board for providing the necessary guidance throughout the year. If it was not for their guidance and counsel we would not have reached thus far. We also thank the Government of Lesotho through our parent Ministry, Ministry of Finance for the support it has offered the Authority. Without this support, the task in hand would have been impossible.

Once again I conclude by re-iterating that taxes develop nations. In my own mind, the most patriotic thing that anyone of us can do is to pay their fair share. It is only right and fair to do so.

