Joint Farmers' Union Paper on Various issues relating to Value Added Tax on Primary Agricultural Products and Certain Key Inputs (Electricity and Water)

Presented to the Agricultural Marketing Authority (AMA) and the Ministry of Finance and Economic Planning by, the Zimbabwe Farmers' Union (ZFU), the Zimbabwe Commercial Farmers' Union (ZCFU), the Zimbabwe National Farmers' Union (ZNFU) and the Commercial Farmers' Union of Zimbabwe (CFU)

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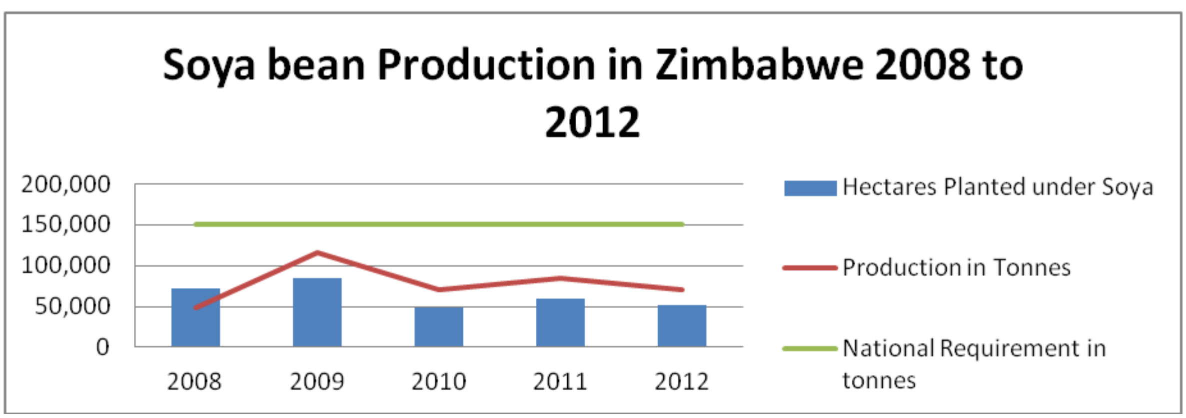
This paper sets out various issues and recommendations on those issues pertaining to value added tax (VAT) on certain primary agricultural inputs and outputs.

Request to remove Value Added Tax on Soya Beans for sales during the period 1st February, 2009 to 1st August 2012

1. Soya Beans are a strategic food crop. The commodity is a vital component in stock feeds and an important source of protein and cooking oil for humans.

2. Local production of soya beans has failed to meet local demand for some time. However, the country has potential to produce a surplus. The deficit is met by imports from Zambia and Malawi. Farmers look to Government as partners in boosting local production of soya beans which is in the overall national interest.



3. Apart from the threat to national food and nutrition security, the deficit in local production has had a negative knock on impact on the competitiveness of livestock production. Stock feed manufactures have for several years relied on imports of soya beans and soya bean cake which is one of the factors that has driven up the cost of stock feeds.

4. We appreciate that Government has recognized the need to improve competitiveness of local production of soya beans and has accordingly zero rated the commodity for VAT with effect from 1st August 2012.

5. Nevertheless, before the relief referred to above became operational, the majority of the main players in the soya bean industry were under the mistaken impression that soya beans were already either exempt or zero rated for VAT. In addition, it is submitted that the Zimbabwe Revenue Authority ("ZIMRA") had not made attempts until relatively recently to collect VAT on Soya beans, and in fact in their correspondence to traders in 2004 had given the impression that Soya beans were zero rated. See the attached letter from ZIMRA to one of the main buyers of various primary agricultural commodities called Origen Corporation. This information pertaining to the VAT status of soya beans came to be in broader circulation and gave most producers and traders the impression that soya beans were zero rated.

6. Thus, the position now is that most soya bean farmers and traders are exposed to unmanageable tax liabilities for the period 1st February, 2009 to 1st August, 2012. This is an unbudgeted expenditure and, if pursued in the future, could either bankrupt some producers or at the very least constrain their ability to expand production of the crop. Additionally it will constrain the ability of traders to purchase the crop. The overall net effect will be reduced or stagnant local production of soya beans.

7. Whilst the tax liability is unmanageable for the soya bean producers, the loss to the *fiscus* if Government is to write it off would be relatively negligible. The cost benefit analysis of reviewing the effective date is most certainly in favour of putting in place a policy to support the soya bean industry. The Table below illustrates the **maximum** amount of revenue that

could be lost or conversely the maximum amount of tax liability that could be faced if it is assumed that the VAT on the total amount of locally produced soya beans was able to be collected (i.e. in the hypothetical scenario that every soya bean producer was registered for VAT or met the VAT registration threshold and if every producer opted to sell his or her soya beans and not use the soya as stock feed). The real loss of tax revenue is most likely substantially lower. Conversely, the individual sums to the affected farmers would be significant:

Year	2009	2010	2011	2012
Total Soya Bean production to the nearest Tonne*	115,817	70,256	84,173	70,542
Average Price of Soya Beans for period[1]	385	467	568	580
MAXIMUM TOTAL VALUE OF SOYA BEANS FOR THE YEAR	44,589,545	32,809,552	47,810,264	40,914,360
MAXIUMUM POTENTIAL VAT (i.e 15% of the Total Value)	**6,688,432**	**4,921,433**	**7,171,540**	**6,137,154**
Maximum Tax Liability if all producers were registered	**24,918,558**			
Notes				
* source Agritex				
[1] This is the average market price for the year in question				

It must be stressed that this amount would not be anywhere near the total indicated in the table because most small scale soya bean producers do not meet the VAT registration threshold and many large scale producers do not sell the soya beans opting instead to use them for stock feeds for their own cattle.

8. As a commodity Soya beans require economies of scale to be viable. It is important to put in place policies that encourage A2 Farmers and other large scale producers to invest in the crop or reinvest in the crop. If these persons are faced with tax liabilities which they were unaware of then they will be unable to continue production going forward.

9. Farmers have noted with gratitude Government's support by according zero rated status and VAT exempt status to White Sugar and Tobacco sold in terms of a contract (Contract Tobacco). Most notable is the effective dates of 1st January 2009 and 1st February 2009 which are applicable to these commodities. However, farmers query why soya beans are not accorded the same treatment. The loss to the *fiscus* in backdating the Zero rated status of

Tobacco and White Sugar would have been far greater than the amount in respect of locally produced soya beans. Why not back date the effective date of Soya Beans also?

10. It would be in the national interest to support the increased production of soya beans. Farmers therefore request for the reviewing of the effective date of the zero rated status on soya beans to the 1st of February 2009.

Request to adopt a policy that accords zero rated or exempt VAT status to all primary agricultural Commodities

11. According to a document published by ZIMRA entitled “the Tariff Handbook FINAL 7 JUNE, 2013”[1] a number of Agricultural Commodities are still Standard Rated (i.e. at 15%) for VAT. Some of the most notable of these have been selected out of the document and are indicated in the following table:

Commodity	Heading/Code
Barley	10.03
Oats	10.04
Paprika and Other Peppers (Capsicum)	09.04
Goat Meat	02.04
Sheep Meat	
Tea	09.02
Coffee	09.01
Groundnuts	12.02
Pumpkins	0709.9300
Aubergines (egg-plants)	0709.3000

The list is not exhaustive but merely serves to highlight that some common primary agricultural commodities are subjected to standard VAT rating. It is also noted that the

[1] http://www.zimra.co.zw/index.php?option=com_phocadownload&view=category&id=6:customs&download=450:tariff-handbook-hs2012-integrated-ict-tariff&Itemid=99

document does make it clear that there may be inconsistencies between it and the relevant Legislation.

12. For some time now the unanimous call of all farmers has been to see that all primary agricultural commodities be either zero rated or exempted from VAT. The main rationale for this is that VAT charged to the farmer impacts the viability of production of the commodities in question, particularly at this time when it is in the national interest to ensure that policies that support increased agricultural production of all agricultural commodities are put in place.

13. It is therefore respectfully requested that the above mentioned primary commodities be either zero rated or exempted from VAT as soon as possible.

Request for removal of VAT from Electricity supplied to Agricultural Customers by the Zimbabwe Electricity Transmission and Distribution Company (ZETDC) and Raw Water for irrigation sold by the Zimbabwe National Water Authority (ZINWA)

14. Electricity is a key input in agricultural production. It is necessary for the overwhelming majority of irrigation schemes, Tobacco curing, Pig, Dairy and poultry production etc,

15. The Cost of Electricity in Zimbabwe is high for farmers, particularly when drawing a comparison with Zambia. Zambia is cited as an example because it is the foremost source of imports of non GMO Maize and Soya Beans into Zimbabwe, and is therefore Zimbabwe's natural competitor in so far as agriculture and these commodities is concerned. Unlike Zimbabwe, Zambia is fortunate in that almost all its power is generated at hydro electric schemes, and therefore costs of electricity are significantly lower. In Zimbabwe, high costs of electricity and unreliable supply are one of the factors that erode the competitiveness of local agricultural production.

16. Recently, the Zimbabwe Power Company (ZPC) and ZETDC have applied to the Zimbabwe Energy Regulatory Authority (ZERA) to increase their tariffs. The justification for this proposed increase is that it is required in order to continue and expand effective service

delivery. Farmers appreciate that more funds are required to ensure a long term plan to increase the reliability of electricity supply, but the trade off is that it will lead to a further short term loss in competiveness and viability to the farmer.

17. However, farmers have noted that there are two charges, additional to the tariffs, which contribute to the high cost of electricity. These are The Rural Electrification Levy and VAT. This paper addresses the latter.

18. Whilst farmers can theoretically claim back input VAT on electricity, in practice there is an administrative burden which is costly, delays which disrupt the farmer's cash flow, and a lost opportunity cost. In addition, many farmers are not registered for VAT because their businesses do not meet the VAT threshold. The net effect is that VAT makes electricity unnecessarily costly for the farmer.

19. VAT on electricity is also arguably unfair for the *fiscus.* This is because all primary agricultural products are zero rated for VAT and therefore farmers could claim back input VAT and not collect any output VAT, despite ZIMRA incurring costs in time and administration of the transaction.

20. It is therefore in the interests of both Government and farmers that VAT be exempted or zero rated for agricultural electricity consumers. The benefit will be to reduce the administrative work of ZIMRA and reduce the actual cost of electricity to farmers. Thus we request that Electricity supplied to Agricultural customers be either exempted or zero rated for VAT.

21. The position is quite similar in respect of raw water for irrigation or livestock watering sold to farmers by either ZINWA or the Sub Catchment Councils.

22. It is requested that likewise Raw water used for irrigation and the watering of livestock be either exempted or zero rated for VAT.

ENDS

Signed by:

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