Looking ahead

2011 Budgetary changes

October 2010

PRICEWATERHOUSECOOPERS

Looking ahead
2011 Budgetary changes

Commentary

A review of the Finance Minister's speech

Zambia continues to perform well when compared to other Sub-Sahara African countries.

A 'People's budget that focused heavily on construction undertaken by the Government

At a glance, there are positive messages we see regarding some of the key economic statistics for Zambia. The Minister of Finance reported that GDP will grow at 6.6% for 2010 in a year when the world's economy continues to recover from the liquidity crisis. This growth rate surpasses that of Sub-Sahara Africa which is expected to stand at 5%. Zambia rose nine places in World Banks' *Doing Business 2010*[1] and was ranked sixth in sub-Saharan Africa, ahead of notable economies such as Ghana and Kenya.

The Minister noted that by end of September, overall inflation stood at 7.7% against a year-end target of 8% and Zambia's foreign reserves were up to four months worth of import cover. The target is to reach five months of import cover by the end of the year.

The strong macro economic performance is supported by the performance of the Agricultural, Mining, Tourism, and Construction sectors. Agriculture, due to consistent and well distributed rain, boasted record maize production of 2.8 million metric tonnes compared to 1.9 million metric tonnes previously.

With the ramping up of production at Lumwana and the resumption of extraction and processing activities at various mines that were on 'care and maintenance', copper production is projected to exceed 720,000 metric tonnes, the highest production levels since 1973.

Tourism and Construction industries are projected to grow by 25% and 10% respectively in 2011.

The Minister of Finance describes the 2011 budget as **"A People's Budget, from a People's Government"**. He also highlighted the need to link resource allocations, in the budget, to the Government's National Development Plan. To this end, he will table a Planning and Budgeting Bill in Parliament. This Bill is expected to provide a framework for stronger monitoring and evaluation system to ensure a more **results orientated** planning and budgeting process.

The budget speech did focus on giving the public an update on construction projects (completed, ongoing or new projects to be undertaken) in infrastructure development, construction of schools & hospitals, and building of health centres. In 2010 the government completed five major road projects and has two in progress. In 2011, the Minister has doubled the amounts allocated for road and infrastructure development, specifying the roads, airstrips, and similar infrastructure projects that will be undertaken.

[1] http://www.doingbusiness.org/Explore Economies/?economyid=207

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Going forward the Minister has identified key areas that need to be addressed to achieve continued growth.

In his speech, the Minister indicated that 33 schools have been completed in 2010 and another 57 schools are still under construction. He has allocated K444.2 billion to complete 68 schools in 2011. This will result in a total of 101 schools being constructed between 2010 and 2011.

This year, the Government undertook construction and rehabilitation of 26 hospitals and 125 health posts. The Minister has pledged to increase available resources by 30.1% for the construction and rehabilitation of nine additional hospitals, six health centres and 16 nurses' flats.

Looking forward, the Minister acknowledges that high commercial bank lending rates continue to be a deterrent for investment by local companies. He has identified some of the factors contributing to the high cost of borrowing, as being:

1. Limited information on creditworthiness of borrowers;
2. High loan default rates; and
3. High costs of doing business.

Under the Financial Sector Development Plan, the Bank of Zambia is expected to develop action plans to address the above matters.

In addition to trying to reduce the cost of borrowing, the Minister has set the following overall targets and objectives for 2011:

- Achieving real GDP growth of 6.4%;
- Reducing inflation to 7%;
- Maintaining international reserves of at least four months of import cover;
- Revival of the manufacturing, transport and communication sectors;
- Continued growth in the mining, construction and tourism sectors.

Whilst the key instruments driving growth and development will continue to be the use of fiscal instruments and increased government spending, it is encouraging and commendable that the Government sees private sector participation in infrastructure development through Public Private Partnerships.

Government's policy of increasing the public expenditure programme by construction of schools, hospitals, infrastructure development and providing agricultural support, together with focus on improving the financial sector is expected to continue supporting the economy. However, caution is required to ensure that real growth is maintained in all sectors without 1) fuelling inflation, or 2) significantly increasing government borrowing. Both these factors could reverse the gains made over the past few years. The higher than projected wage bill and related increase in domestic borrowing for 2010 should set off cautionary bells.

As a parting shot, we note that in order to finance the expenditure, the focus is on increased tax collections. The introduction of Value Added Tax (VAT) on residential properties, an increase in property transfer taxes from 3% to 5%, and the removing of Mortgage Interest Relief on purchase of residential homes will negatively affect first time house owners.

All in all, the verdict is that Government should keep up the momentum on infrastructure development through specific investment in infrastructure, health and education and expediting financial sector reforms.

The Economy

Comparative analysis – Key Performance Indicators

ECONOMIC PERFORMANCE

Gross Domestic Product (GDP)

Government targets 2011 GDP to decline to 6.4% compared to 6.6% estimate for 2010

Real GDP growth rate for 2010 is estimated at 6.6% (2009: 6.4%), the highest recorded not only over the last ten years but also within the period since the implementation of the Fifth National Development Plan (FNDP) i.e. between 2006 and 2010.

GDP growth over the period of the FNDP has averaged 6.1%.

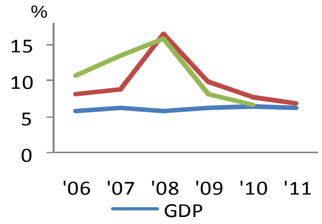
Zambia's GDP compares favourably with that of Sub-Saharan Africa which is projected to be 5% for 2010 (2009: 2.6%).

The key drivers of this growth have largely been the mining and agriculture sectors:

Increased private sector investment in all sectors contributed towards Zambia's resilience to the global recession

- continued and increased investments in the mining sector supported by buoyant commodity prices on the London Metal Exchange - the average copper price reached US $7,202 per m/t between January and September 2010;

- good yields in the agriculture sector, where a record bumper maize harvest of 2.8 million metric tonnes was achieved (2009: 1.9 million metric tonnes). Growth in this sector for 2010 is expected to be 7.6%.



Other notable contributions to the growth of the 2010 economy include tourism and construction which are both expected to record growths of 25% and 10% respectively.

Recovery of the Global Economy

The global economy is expected to grow by 4.8% in 2010, albeit slowly, with emerging economies such as Brazil, India and China continuing to lead the growth.

Although mining continues to be the strongest sector, gains registered in the non-mining economy particularly in agriculture, manufacturing and service industries, helped to mitigate the impact of the global economic recession on Zambia.

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Copper production for 2010 is projected at 720,000 metric tonnes - a level last achieved in the early 70's

2011 year end inflation is targeted at 7% compared to 8% estimate for 2010

OTHER MACRO ECONOMIC INDICATORS

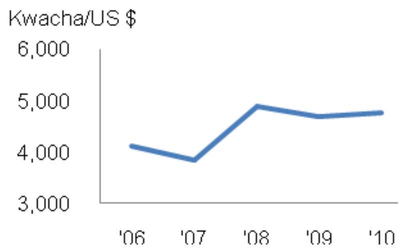
Inflation

Annual inflation slowed down to 7.7% in September 2010 (2009: 9.9%).

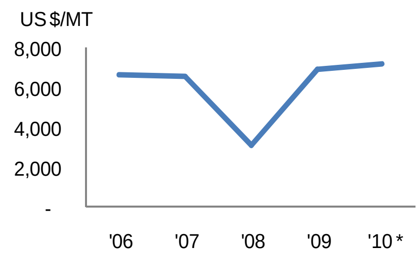
Government is hopeful that despite the inflationary pressures currently being experienced (such as higher fuel and electricity prices and a weaker kwacha during the second quarter of 2010) the overall 8% target inflation for 2010 is still achievable.

Exchange Rate

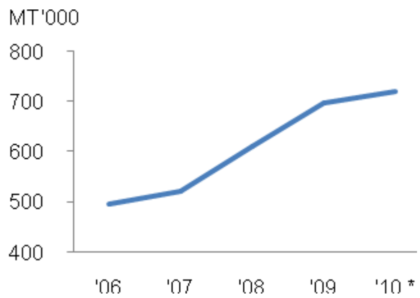
The performance of the Kwacha against major convertible currencies such as the US dollar was generally mixed but relatively stable despite the turbulence in the international markets.



The appreciation of the Kwacha in the earlier years of the FNDP period were due largely to rising copper prices on the London Metal Exchange, resulting in increased investments in the mining sector.



Correspondingly Zambia's copper production, spiralled by growth in India and China, has been on the increase almost reaching the peak levels achieved in the 70's, as shown in the graph below.



**2010 production is projected to reach 720,000 tonnes. Actual production to June 2010 was 440,000 tonnes.*

Government is hopeful that Zambia's copper production will reach one million metric tonnes per annum in the medium term.

Domestic Borrowing

Government increased domestic borrowing in 2009 after a number of cooperating partners withheld sector and general budget support to various ministries.

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It's a K20.5 trillion budget

82.7% of the budget will be financed by domestic resources, and the balance through grants and foreign loans

In 2011, 17% of the budget will be financed through grants and foreign loans. In 2010, only 14.5% was financed through foreign sources.

Construction of three generation projects with a combined generating capacity of over 800 megawatts to commence in 2011

The above effects in 2009 had a spill over effect in 2010 where the initial domestic borrowing limit was revised from 1.8% to 3% of GDP.

In 2011, Government intends to limit domestic borrowing to 1.4% of GDP.

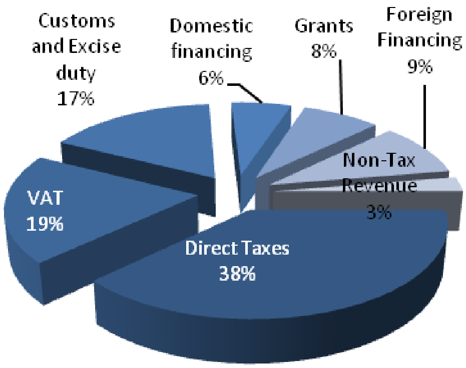
THE 2011 BUDGET

The 2011 budget has been prepared taking into account the objectives of the Vision 2030 and the Medium Term Expenditure Framework (2010 – 2012).

Government proposes to spend K20.5 trillion in the 2011 budget and have set the following targets:

Key Performance Indicator	Target
GDP	6.4
Inflation	7.0
Domestic borrowing a % of GDP	1.4
International reserves	4 months

The budget will be financed from the following sources:



PUBLIC PRIVATE PARTNERSHIP

Government continues to be committed to private sector participation in infrastructure development and in 2009 enacted the Public Private Partnership (PPP) Act.

Some PPP projects have been underway in 2010 most notably in road construction, airports rehabilitation and power generation. Kasumbalesa Border Post in the Copperbelt is the first PPP project nearing completion.

For 2011, Government has earmarked additional infrastructure projects such as the building of 12,000 houses, road construction and power generation under PPP's.

SECTOR ANALYSIS

Agriculture

In 2010, Zambia recorded a bumper maize harvest of 2.8 million metric tonnes.

The Government, in 2011, announced that they will continue preparatory works at the Luena Farm Block in Kawambwa District and complete the ongoing infrastructure works at the Nansanga Farm Block in Serenje.

In order to further develop the livestock industry, Government will construct livestock service centres in 13 districts across the country.

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2011 Budgetary changes

Government intends to embark on several projects in partnership with the private sector through the PPP route

Government aims to reposition Zambia as a premier nature, wildlife and cultural tourism destination

Energy

The availability of more power will emerge as one of the critical constraints for further growth of the economy. Government has therefore increased allocation to the Rural Electrification Program to K314 billion.

Progress is being made on a number of projects such as the Kariba North Bank Extension which is expected to commence operations in 2013.

Other projects which are expected to commence in 2011 include the Kabompo Gorge and Kalungwishi with combined power generation capacity of over 250 megawatts.

The Kafue Gorge Lower project is also on stream and is expected to be one of Africa's largest PPP project in the energy sector.

Transport and Communication

The Government has doubled the budget allocation from K1.5 trillion in 2010 to K3.1 trillion in 2011 for the construction and rehabilitation of the road network across the country.

In addition, Government has allocated K28.4 billion towards the rehabilitation and upgrading of airports and airstrips including at Kasaba Bay, Mansa, and Kasama in the Northern Province and Mongu in the Western Province.

Tourism

In the 2011 budget, Government has proposed to allocate K12.8 billion for marketing activities and K38.6 billion towards the development of the Northern Tourism Circuit.

In addition, K37.7 billion has been allocated to the development of infrastructure in the Kafue National Park, Lusaka National Park and the creation of a tourism "One-Stop Shop" facility which will provide a single window licensing platform for tourism operators.

Direct Taxes

Increase in income tax bands for personal taxes

Annual bands for 2011/2012		**Annual bands for 2010/2011**	
Income	**Tax rate**	**Income**	**Tax rate**
First K12, 000,000	0%	First K9, 600,000	0%
From K12,000,001 – K20, 820,000	25%	From K9, 600,001 – K16, 020,000	25%
From K20, 820,001 - K50, 400,000	30%	From K16, 020,001 – K49, 200,000	30%
Above K 50,400,000	35%	Above K49, 200,000	35%

Exempt threshold increased by 25%

All annual tax bands increased.

Termination benefits increased

Tax credits increased for persons with disabilities

Corporate tax rate increased on telecom companies

Personal Tax

Changes in annual tax bands

The exempt threshold has increased by K200,000 each month. This represents an increase of 25%.

The annual tax bands have also increased from 2010/11. An individual earning K2m per month will now be better off by K70,000 each month. Individuals earning above K4.2m per month will be better off by K75,000 each month.

The 20% increase in the tax exempt band should have a positive impact on consumer spending power, particularly for the lower paid. This should create more demand for goods and services. It is hoped that this demand can be easily met by local suppliers. If not, it could fuel inflation and increase imports.

Termination benefits

The tax free terminal benefit payable on the cessation of employment is to be increased from K25m to K35m..

Persons with disabilities

The tax credit applicable to persons with disabilities is increased to K3m per annum from K1.92m per annum.

Corporate Tax

Rate of tax chargeable

The standard rate of corporation tax remains at 35%. However for companies in the telecommunication sector this will increase as follows:

- First K250m per annum at 35%.
- Profits above K250m at 40%.

The stepped increase in corporate tax rates will reduce the return on investment for mobile phone operators. This could result in reduced investment in infrastructure, product and service development and delivery. If there is insufficient competition between the operators, the increase in cost could be passed on to consumers in the form of increased charges.

Looking ahead

2011 Budgetary changes

Interest on residential mortgages will not be tax deductible

Removal of requirement to submit audited accounts for small/medium sized entities

Specific penalties for mineral royalties

Property transfer tax rate increased

Anti-avoidance legislation to apply to Property Transfer Tax.

Motor vehicle licence fee to be increased by 50%

Interest paid on mortgages

Interest paid on mortgages on residential properties will be non deductible for tax purposes. This will make the cost of purchasing/building residential homes more expensive. It is assumed that this measure will not apply to businesses that trade in residential homes or businesses that construct residential properties. If it does, it will severely affect the supply and development of suitable residential accommodation in Zambia.

Effective date

All of the above measures take effect from 1 April 2011.

Housekeeping measures

The requirement to submit audited accounts to the Zambia Revenue Authority (ZRA) is being removed for small and medium enterprises. Clarification is required on the nature and format of accounts that must be submitted. For instance, will companies be required to submit accounts prepared in accordance with International Financial Reporting Standards, or will they require an accountants report?

Whilst this measure is welcome the absence of specific guidance on the nature, format and content of accounts could lead to additional costs arising from ZRA audits, investigations and extensive queries on account of insufficient information.

Currently there are no specific penalties for non compliance with late payment of the tax on mineral royalties. In future penalties will be charged in accordance with the penalties charged on non compliance with corporate tax. This implies that the late payment of mineral royalties will be subject to interest (levied at 2% above the Bank of Zambia base rate) and penalties of 5% for each month or part of a month that the tax remains unpaid.

Property Transfer Tax

Property transfer tax is payable when property or shares are sold or transferred. The tax is charged on the market value of the assets transferred. The Minister proposes to increase the rate of property transfer tax from 3% to 5% with effect from 1 April 2011.

As part of the housekeeping measures, the Minister proposes to extend the current anti-avoidance provisions that are contained in the Income Tax Act to the Property Transfer Tax Act. Therefore if there is a view that the taxpayer has entered into any scheme, or transaction, the main purpose of which is the avoidance of tax, then the anti-avoidance provisions may be applied to recoup any tax underpaid or any tax deemed to be underpaid. We await the actual wording of the legislative provisions to determine the level of authority and discretion that may be exercised by ZRA.

Miscellaneous measures

Motor vehicle licence fee

The motor vehicle licence fee is to be increased from 1 January 2011 by 50%. This will increase transport costs for both businesses and individuals.

Indirect Taxes

Highlights based on the Finance Minister's speech

Fee-based banking services, property and casualty insurance to be subject to VAT

Hammer mills to be zero rated

Development of dwelling houses to be standard rated

Value Added Tax (VAT)

VAT on fee-based banking services, property and casualty insurance

Currently fee-based banking services are exempt for VAT purposes.

The Minister proposes to charge VAT on fee-based banking services at the standard rate. This means that other than interest on lending, fees charged for specified banking services will attract VAT. This will increase the cost of banking services for individuals and companies that are not registered for VAT purposes. However, this measure should benefit financial institutions as it should improve the scope for claiming a greater proportion of input VAT on overheads incurred on business expenditure.

The provision of insurance is currently exempt for VAT purposes. The Minister proposes to charge VAT at the standard rate for the provision of property and casualty insurance. Whilst this measure will increase the cost of insurance for non commercial customers, insurance companies should benefit as they will now be able to claim a portion of input VAT incurred on the goods and services purchased for business purposes .

VAT on hammer mills to be zero rated

The Minister proposes to zero rate hammer mills for VAT purposes. This measure is aimed at encouraging small scale farmers and families purchase hammer mills to reduce dependce on commercial entities to process their grain for domestic use.

Effective date

The above measures are effective from 1 January 2011.

Housekeeping measures
VAT on developing dwelling houses for sale to be standard rated

The sale of domestic buildings is currently exempt for VAT purposes. As part of the housekeeping measures the VAT Act will be amended to standard rate the sale of of dwelling houses by developers.

This measure will increase the cost of acquiring dwelling houses by individuals and is likely to be inconsistent with the aspirations of the majority of individual's that hope to own their own home.

Commercial developers of residential houses should now be entitled to reclaim input VAT on expenditure incurred for business purposes. If they did not pass on all of the cost of unclaimable input VAT on to the final customer in the past, they will benefit from the new measure as they will now be able to reclaim input VAT incurred on business expenditure.

Looking ahead
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Gifts and promotional materials threshold increased

Increase of the threshold from K25,000 to K100,000 for gifts or promotional materials

The threshold for the supply of gifts or promotional materials VAT free will be increased from K25,000 to K100,000.

Specification of goods and services qualifying for exemption under funeral services

Exempt funeral services specified

Currently, the VAT Act does not specify the goods and services that quality for VAT exemption in the provision of funeral services.

Under the proposed housekeeping measures, the VAT Act will now specify those goods and services that will qualify for exemption in the provision of funeral services.

Indirect taxes

Highlights based on the Finance Minister's speech

All Customs and Excise changes are effective from 1 January 2011

Removal of 15% customs duty on import of electricity

Introduction of customs duty on cold-rolled coils and deformed bars primarily used in construction

Review and improvement of Duty Drawback scheme

5% excise tariff on "palm olein" oil

Customs & Excise Duty

Customs Duty

Energy

The Minister proposes to remove the 15 % customs duty on the importation of electricity by Zesco and other power utility providers.

This measure should reduce cost pressures on utility service providers and it is hoped that even if the immediate benefits are not passed on to consumers, there will be limited increases in electricity tariffs going forward.

Manufacturing
Encouraging local manufacturing

To encourage local manufacturing the Minister proposes to introduce customs duty on cold-rolled coils and galvanised cold-rolled coils of 15% and 25% respectively. The Minister also proposes to introduce 25% customs duty on deformed bars which are used by the construction industry.

This measure is aimed at supporting local industry and making local products more competitive.
This measure will be effective to the extent that local manufacturers are able to satisfy customer demand.

Encouraging non-traditional exports
Duty Drawback Scheme

The Minister proposes a review of the duty drawback scheme with a view to simplifying the procedures so that exporters of non traditional products can benefit from it. This Scheme allows exporters of non-traditional goods to reclaim duty paid on inputs used to produce the exported goods, provided certain conditions are met.

A simple, non bureaucratic system which enables exporters to easily access and realise the duty refunds should make our exports more competitive.

Customs duty on "palm olein" oil

The Minister proposes a specific tariff classification for "palm olein" oil of 5% in order to align this with the tariff applicable to "palm stearin".

Looking ahead

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Customs duty removal on fire equipment

Increase minimum threshold to US $2,000 for appointing a clearing agent

Pre-clearance of imports not required

10% excise duty on plastic bags

Changes to import procedures and other measures to reduce the costs of doing business

Customs duty removal on fire fighting equipment

In order to encourage fire safety and reduce the cost of doing business, the Minister proposes to remove customs duty on fire-fighting equipment of 15%.

This should be welcomed by most organisations as it should reduce the cost of complying with fire safety regulations.

Increase of the minimum threshold for the appointment of a clearing agent

The Minister proposes to increase the minimum threshold at which an importer of goods is required to appoint a clearing agent from USD 500 to USD 2,000. We understand that this measure is directed at reducing the cost of doing business for small scale cross border traders.

It is questionable as to whether the increase in threshold is sufficient to have any measurable impact.

Removal of requirement to apply for pre-clearance of imports

The Minister proposes the removal of a pre-clearance application to the Commissioner-General of ZRA for entry of goods. This should reduce administrative procedures for importers.

New provision for the registration and submission of entries

Whilst the requirement to make an application for pre-clearance of goods to be imported has been removed, importers will now be required to register/notify ZRA and submit entries subject to customs duties at least 7 days prior to importation of goods of a commercial nature, or 24 hours where the goods are accompanied by the importer.

This measure should enable ZRA to expedite clearance of goods subject to customs duties.

It is hoped that the new procedures will indeed quicken clearance procedures and reduce congestion at customs border posts.

The measure may however, impede the importation of goods required at short notice or in an emergency. This could hamper industry and in certain instances actually increase the cost of doing business.

Excise Duty

Introduction of Excise duty on plastic bags

The Minister proposes to introduce excise duty of 10% on plastic bags. The duty will not apply to paper bags which are bio-degradable.

This measure aims to change consumption and behaviour patterns and seeks to discourage use of plastic bags which harm the environment and block public drainage systems.

Effective date

All the above customs and excise duty changes will be effective from 1 January 2011.

Looking ahead

2011 Budgetary changes

Equipment qualifying for duty remission specified

Simple interest on late payment of customs and excise duty

Housekeeping measures

Specific tariff lines for dangerous chemicals

Specific tariff lines will be introduced for dangerous chemicals in line with the World Customs Organisation (WCO) recommendations.

The measure is intended to prohibit the development, production, stockpiling and use of chemical weapons and their destruction in line with the WCO requirements. It will also enable the government to capture and collect data and information to compile appropriate statistics to assist decision making.

Mining machinery, equipment and special services motor vehicles

Regulation 96 of the Customs and Excise (General) Regulations is to be amended to specify the machinery, equipment and special purpose motor vehicles that qualify for duty remission.

This measure is intended to remove ambiguities by specifying the items that qualify for duty remission. These include:

i. Dump trucks-off highway
ii. Mine –Locomotives
iii. Transmission or conveyor belt
iv. Conveyors

Increase of fees for manually processing bills of entry

The fees for manually processing bills of entry will be aligned with fees for automated processing to K50,040.

Removal of requirement to apply for licence for services subject to excise duty license requirement

The requirement for service providers to apply for a licence for provision of services liable to excise duty is to be removed. This will primarily affect mobile phone companies.

This is in line with the government's regulatory reforms aimed at reducing the number of licenses required to do business in Zambia.

Simple interest on late payment of customs and excise duty

The Customs and Excise Act will be amended to disallow the use of compound interest when calculating charges.

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Income Tax- Companies

Corporate Tax rates

Standard rate	35%
Banks and Telecommunication companies	
Income not exceeding K250 million	35%
Income exceeding K250 million	40%
All other companies except mining companies	35%
Farming	15%
Export of non-traditional products*	15%
Foreign earnings of Sun International Limited	15%
New listings on LuSE**	2% discount
New listings on LuSE> 33% shares taken up by Zambians	7% discount
Turnover tax levied on small business with turnover < K200 million (excludes income earned from consultancy services and mining operations)	3%
Advanced Income Tax	6%

Capital Deductions***

Investment allowance on industrial buildings****	10%
Initial allowance on industrial buildings****	10%
Industrial buildings allowance	5%
Commercial buildings allowance	2%
Implements, machinery and plant	
Used for farming, manufacturing, tourism and leasing	50%
Implements, machinery and plant- Other	25%
Motor vehicles	
Commercial	25%
Non-commercial	20%
Farming	
Farm improvement/ Farm works allowance	100%

Trading losses

Carry forward of losses	No. of years
Non -mining companies	5
Hydro and thermo power generation companies	10

* With the exception of minerals, electricity, services and cotton lint exported without an export permit from Minister of Commerce.
** Discount applicable to corporate tax rates and only available for the first year.
*** Capital allowances are computed on a straight line basis.
**** Investment and Initial allowance granted in the charge year in which the industrial building has been put into use.

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Income Tax- Mining Companies

Company rate

Basic rate	30%
Variable profit tax*	Up to 15%

Capital deductions

Capital allowance on capital equipment	100%

Trading losses

Carry forward of trading losses	No. of years
Konkola Copper Mines plc	20
All other miners of base metals	10
Prospecting and exploration companies	5

* Applicable when taxable income from mining operations exceeds 8% of the gross sales.

Tax Treaties

Canada, China, Denmark, Finland, Germany, India, Ireland, Italy, Japan, Kenya, Netherlands, Mauritius*, Norway, Romania, South Africa, Switzerland, Tanzania, United Kingdom, Uganda, Yugoslavia*, Zimbabwe*.

* The treaties have not been ratified

Income Tax- Individuals

Annual income bands

	Income from	Income to	Tax rate	Tax on band	Cumulative tax on income
	K	K	%	K	K
First	0	12,000,000	0	0	0
Next	12,000,001	20,820,000	25	2,205,000	2,205,000
Next	20,820,001	50,400,000	30	8,874,000	11,079,000
Over	50,400,000		35		

Housing Benefit taxable in the hands of the employer

Rate at which employees annual gross emoluments disallowed	30%

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Tax on car benefit is payable by the employer at the corporate tax rate based on the following scale charges:

Engine size < 1,800 cc:	K9,000,000 p.a
Engine size > 1,800 cc, < 2,800 cc:	K15,000,000 p.a
Engine size > 2,800 cc:	K20,000,000 p.a

Dividends from Lusaka Stock Exchange

Dividend income earned by individuals on shares listed on the LuSE is exempt from income tax

Medical Levy

Banks or financial institutions paying interest on savings or deposit accounts, treasury bills, government bonds or similar financial instruments deduct medical levy of 1%.

Withholding Tax

	Resident	Non-resident
Dividend	15%	15%
Interest	…15%	15%
Management or consultancy fee	0%	15%
Royalties	15%	15%
Rent from a source within the Republic	15%	15%
Commissions	15%	15%
Non-resident construction and haulage contractors	N/A	15%
Non-resident entertainers/sports persons fees	N/A	15%

Payments made by companies carrying on mining operations

Dividend	0%	0%
Interest to any lender	15%	15%
Management fees to shareholders	0%	15%

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VAT

Taxable supplies- rate

Supply of goods & services in Zambia	16% / 0%
Import of goods & services into Zambia	16% / 0%
Export of goods & services from Zambia	0%

Registration

Threshold	K 200m p.a.

Payment- due date

Supply of taxable goods & services	21 days following the end of the VAT accounting period*

Repayment - due date

Standard	30 days after submission of VAT return

*accounting period means the month following the month of registration and each succeeding calendar month.

Concessions for priority sectors

Incentives for companies in priority sectors/Multi-facility Economic Zones (MFEZ) under the Zambia Development Agency Act:

- No tax on profits for a five year period from the first year of assessable profits.
- Only 50% of profits taxable in years 6 to 8.
- Only 75% of profits taxable in years 9 to 10.
- Deferment of VAT on machinery and equipment including trucks and specialised motor vehicles.
- 0% custom duty on raw materials and capital goods, machinery including trucks and specialised motor vehicles for a five year period.
- No withholding tax on dividends, management fees and interest, and payments to foreign contractors for a period of five years from the first date that the payment is due.
- 100% improvement allowance for tax purposes on capital expenditure for improvement and upgrading of infrastructure.
- 0% VAT on supplies to developers of MFEZ and industrial parks.
- Exemption from customs duty on equipment and machinery imported for the development of MFEZ and industrial parks.
- MFEZ are located in Chambishi, parts of Lusaka, and Lumwana.

Note:
Chambishi is fully functional
Lusaka and Lumwana are declared but not fully functional

Carbon Tax

An annual carbon tax is payable on all motor vehicles as follows:

Engine size < 1,500 cc	K50,000 p.a
Engine size > 1,500 cc, < 2,000 cc	K100,000 p.a
Engine size > 2,000 cc, <3,000 cc	K150,000 p.a
Over 3,000cc	K200,000 p.a
Vehicles propelled by non pollutant energy sources	Nil

Note:

Validity period of the carbon emission tax certificate is 90 days for vehicles in transit and those that enter for short periods only.

Property transfer tax

Land and buildings, shares	5% of open market value

Looking ahead
2011 Budgetary changes

Deadlines and Penalties

	Deadline/Obligation	Immediate penalty	Interest
Income Tax- Companies			
Provisional tax/return			
Late payment	4 quarterly instalments on 30 June, 30 September, 30 December & 30 March	5% per month or part month	2% + DR
Underestimation of tax	2/3 of the total tax liability payable in 4th quarter	25%	N/A
Late filing of return	End of every quarter on the dates as stated above where applicable	K360,000 per month or part month	N/A
Final tax/ return			
Late payment	30 September	5% per month or part month	2% + DR
Late filing of return	30 September	K360,000 per month or part month	N/A
Income Tax - Individuals			
Final Tax return			
Late payment	30 September	5% per month or part month	2% + DR
Late filing of return	30 September	K180,000 per month or part month	N/A
Withholding Tax			
Late payment	Within 14 days after the end of the month of accrual / payment	5% per month or part month	2% + DR
Payroll (PAYE)			
Late payment	Within 14 days after the end of the month of accrual / payment	5% per month or part month	2% + DR
VAT			
Late lodgement	21 days after the end of the accounting period**	Daily penalty- higher of K180,000 and 0.5% x tax payable	N/A
Late payment	21 days after the end of the accounting period**	Daily penalty- 0.5% x tax payable	2% + DR

Key

DR= Bank of Zambia discount rate

** accounting period means the month following the month of registration and each succeeding calendar month.

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The information in this budget bulletin is based on the budget pronouncements of 8 October 2010. The specific legislative provisions to effect the budget pronouncements are subject to enactment by Parliament. We therefore caution that the information highlighted in this budget bulletin may be subject to change. Accordingly, you should confirm the current tax position as necessary.

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