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Weathering the storm

Zambia's 2016 National Budget

9 October 2015

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PwC analysis and outlook

Commentary

Turbulent Times

It has been a testing 12 months for Government in what may in retrospect be described as an *annus horribilis* for Zambia.

In addition to the sudden death of the former President, His Excellency Michael Sata, last October, shortly after the 2015 budget was announced, Zambia's economy has struggled under the weight of falling copper prices, a weakened Kwacha and crippling power shortages.

In his 2016 budget address, Minister of Finance, the Hon. Alexander Chikwanda, acknowledged that this year had been "economically challenging", pointing to the drop in demand for copper and last year's poor rains as catalysts for the country's economic woes.

The copper price has fallen from an average of US$6,829 per tonne in 2014 to US$5,160 per tonne this year, making it economically unviable for some mines to operate. Meanwhile, low rainfall in the 2014/2015 rainy season has resulted in an unfavourable performance in the agriculture sector and prompted prohibitive power cuts.

With El Nino expected to bring further weather uncertainty this year plus the ongoing economic slowdown in China and Europe, Government has warned that recent challenges will likely remain in 2016. In addition, the prospect of higher interest rates in the US as the US economic recovery gathers momentum could bring new challenges in the form of higher interest repayments on Zambia's growing dollar-denominated debt.

Growth Derailed

The growth in Zambia's gross domestic product (GDP) is expected to be significantly less in 2015 than projected in last year's budget as a result of recent challenges.

Growth estimates have been revised down from 7% to 4.6%, due largely to an anticipated fall in copper output. Zambia was expecting to produce 808,000 tonnes of copper in 2015, but, as at the end of August, copper production for the year stood at 441,584 tonnes, reducing the chances of meeting this target. Government is aiming for GDP growth of 5% in 2016.

With mining accounting for 80% of export earnings, the drop in copper prices and output will have a big impact on 2015 tax revenues. This underlines the urgent need for Government to diversify the economy away from copper mining. Over the years, successive governments have called for the diversification of the economy. However, few of the measures proposed or initiatives implemented to date have proved effective at establishing a broader economy. Plans for diversification in this year's Budget are in many cases short on detail.

An Economy in the Dark

The nationwide power cuts that began in July have compounded the effect of the falling copper price on Zambia's mining sector and on the economy as a whole.

Government has undertaken short-term measures to address the problem, including importing emergency power from abroad, but admits that this is not a sustainable solution. There are various public and private power projects in the pipeline, including the 120 Megawatt hydro generation project at Itezhi-Tezhi, due to come online next year. Unfortunately, continued delays to these projects risk derailing Government efforts to plug the power deficit, which, in the long-term, could have serious repercussions for the economy.

In this year's Budget, Government has announced various tax incentives to encourage private investment in the energy sector. It has also announced a planned increase in electricity tariffs of almost 100% from 5.64 to 10.35 cents per kilo watt hour.

The Kwacha's Fall from Favour

The Kwacha has been the world's worst-performing currency this year thanks to a combination of international and domestic factors, depreciating to half its value during the first nine months of the year.

Zambia's economy has faced international headwinds this year in the form of a strong US dollar and low commodity prices.

Closer to home, a reduced supply of foreign exchange earnings from copper, uncertainty in mining tax policy, power problems and the widening fiscal deficit have all contributed to the Kwacha's weakness. Forex earnings fell from US$5 billion in the first half of 2014 to US$3.6 billion in same period this year, while the budget deficit widened from 4.6% of GDP to 6.9% this year. Government's target deficit of 3.8% in 2016 could be difficult to meet given the challenges that are expected to continue in 2016.

Due to Zambia's dependency on imports, the depreciation in the Kwacha could fuel inflation going forwards.

Neither a Borrower Nor a Lender Be

To fund the burgeoning budget deficit, Government issued a US$1.25 billion Eurobond in July, the third Eurobond issued by the Patriotic Front Government since it came to power in 2011.

The latest Eurobond issue brings Government's external debt up to US$6.3 billion (as at the end of August), an increase of 31% since December 2014. Domestic debt, meanwhile, stood at K26.5 billion as at the end of September.

While Zambia's debt remains within internationally acceptable levels of 40% of GDP, there is some concern about the sustainability of Government's current borrowing. Most notably, the cost of servicing this debt is likely to continue to rise in light of Zambia's deteriorating economic outlook.

Government has taken some positive steps to ensure it meets future loan repayments. Most notably, it has established a Sinking Fund which, if topped up regularly, should enable it to repay the capital on its Eurobond loans when they expire. However, more could be done to monitor and evaluate Government borrowing.

Government could also reduce public spending by cutting its public wage bill. According to the *"Medium Term Expenditure Framework for 2016 to 2018"*, Government will spend 52.4% of domestic revenue, or 9.1% of GDP, on personal emoluments in 2016.

A Smart Move

Given the threat of increasing power prices, inflation and a reduction in mining income, a larger and more competitive local manufacturing, agriculture and tourism sector is critical for diversification.

A key factor in becoming competitive is increased productivity. His Excellency President Edgar Lungu recognises this and in his opening speech to Parliament called for Government and citizens alike to embrace a "transformational culture" and adopt a "smart" approach in order to make Zambia more prosperous.

In short, Zambia will need to increase individual and national productivity levels across all sectors if the country is to ride this storm and become a developed nation by 2064.

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Zambia’s credit rating downgraded by Moody’s Investor Service.

In September and October 2015, Moody’s Investor Service and Standard & Poor’s both downgraded Zambia’s government issuer rating with the outlook of the rating changing from stable to negative. This was on account of weak commodity prices, lower copper production and domestic electricity shortages.

Diversification and job creation continue to top Government’s agenda.

The 2016 National Budget comes at a time when Zambia, together with most African countries, is facing various domestic and international challenges. The Budget, with its theme of *“Fiscal Consolidation to Safeguard our Past Achievements and Secure a Prosperous Future for All”,* takes cognisance of these challenges.

While this year’s Budget actively takes some steps to cushion the impact of these challenges on the economy, only time will tell whether these measures are sufficient in the medium to long term to ensure Zambia regains its growth momentum and reputation as a stable and attractive investment environment.

Total budgeted expenditure of K53.14billion.

The 2016 Budget amounts to K53.14bn, which represents 25.8% of GDP. Of the total budget, K42.11bn (c. 79.2%) will be financed through domestic revenues, with the balance of K11.03bn (c. 21.8%) being financed through grants and domestic/foreign debt.

2015 GDP forecast revised downwards from 7% to 4.6%.

Indicator	2015 Target	2015 Projected	2016 Target
GDP Growth	7.0%	4.6%	5.0%
International reserves	4 Months	4.4 Months	> 4 Months
Inflation rate	< 7.0%	< 10.0%	7.7%
Domestic Revenue (% of GDP)	18.5%	18.1%	20.4%
Budget deficit (% of GDP)	4.6%	n/a	3.8%

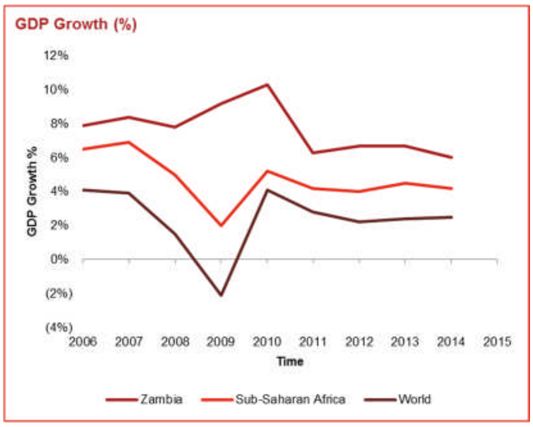
Other objectives Government has set include:

- Accelerate the diversification of the economy, focusing on tourism, energy, agriculture and agro processing; and
- Create employment opportunities through accelerated implementation of programmes such as the Industrialisation and Job Creation Strategy and the Youth Empowerment Action Plan.

Economic Performance

Gross Domestic Product

Between 2011 and 2014, Zambia experienced strong economic growth at a rate of c.6.4% over the period. It exceeded GDP growth in both Sub-Saharan Africa and the global economy (World Bank, 2015).



Source: World Bank, IMF, PwC Analysis

However, a number of shocks to the economy have led to a slowdown in 2015 growth. Government has now lowered growth estimates for 2015 from 7% to 4.6%.

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Falling Copper prices played a significant role in the depreciation of the Kwacha.

The major shocks to the economy in 2015 have included:

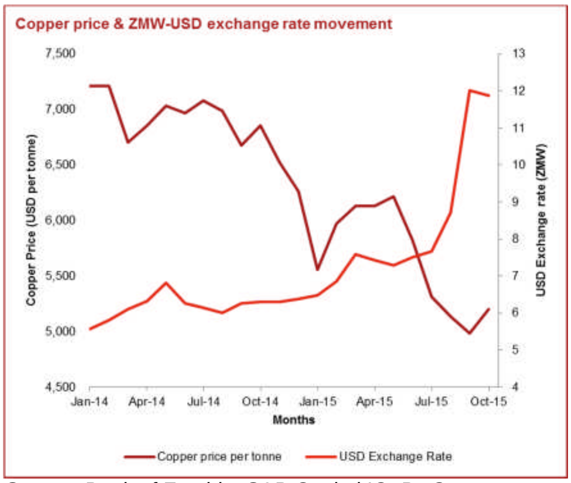
- Electricity rationing (load shedding) throughout the country has affected productivity and ultimately reduced output and activity across all sectors of the economy. The load shedding has also led to increased production costs as business owners seek alternative energy sources.
- Declines in commodity prices particularly copper, which is Zambia's main foreign exchange earner.
- Both these factors have also had a significant impact on the exchange rate. The reduced foreign exchange earnings from exports of copper together with the lower volumes of production for exports have adversely affected the Kwacha's strength relative to other currencies, as set out in further detail below.

Exchange Rate

The Kwacha continues to be vulnerable to external shocks that are outside Government's control.

The Zambian Kwacha has almost halved in value against the US$ in the first three quarters of 2015, from a rate of K6.48/US$ in January 2015 to K11.87/US$ by October 2015 (Bank of Zambia, 2015). This has been attributed to both domestic and global factors.

The primary domestic factor driving the depreciation of the Kwacha against the US Dollar has been the deteriorating copper price. Given that mining accounts for 80% of foreign exchange earnings, the impact on the Kwacha has been worsened by the lower-than-planned Zambian mining output by mining firms. As a result, there has been a decline in foreign exchange inflows.



Source: Bank of Zambia, S&P Capital IQ, PwC Analysis

The stronger recovery of the US economy in 2015 versus other advanced economies has resulted in the strengthening of the US Dollar against other currencies. The US Federal Reserve recently maintained its current rate of interest. However, should rates be increased in the future, this may further impact the Kwacha's strength.

In addition, most large infrastructure projects in Zambia are currently being undertaken by foreign contractors. There is still a question as to whether these funds remain in Zambia or are externalised.

The Minister of Finance recently acknowledged in a statement that although non-traditional exports have been increasing over the past few years, the quantum earned from this

Inflation has averaged around 7.4% since Dec 2015. However, in the current climate, we can expect this to increase.

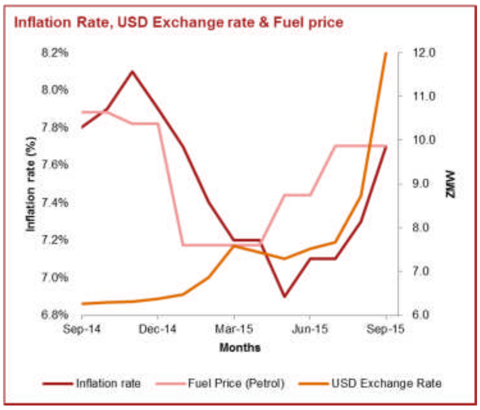
The Government has indicated its preference for external borrowing over domestic debt.

segment has not been enough to moderate pressures on the Kwacha. While Government aims to take steps to diversify the economy through the agriculture and energy sectors, it is unlikely that this impact will be felt in the short term.

Government has ruled out the introduction of foreign exchange controls to halt the depreciation of the Kwacha. The Bank of Zambia has instead continued to issue guidance on the need for all domestic transactions to be priced and settled in Kwacha. In the short term, the Bank of Zambia will seek to stabilise the currency through open market operations and through the use of appropriate policy instruments at its disposal.

Inflation

The inflation rate for September 2015 was 7.7% which is lower than the 2014 year end inflation of 7.9%. However, the inflation rate has been rising since May 2015.



Source: Central Statistical Office, Energy Regulation Board, Bank of Zambia, PwC Analysis

The inflation rate declined from 7.7% in January 2015 to 6.9% in May 2015. This was driven by falling global crude oil prices and subsequent reductions in fuel pump prices from K10.38 per litre of petrol in December 2014 to K7.6 per litre of petrol over the period January to April 2015.

Since then, however, the depreciation of the Kwacha against the US Dollar has led to increases in fuel pump prices to K8.74 per litre of petrol in May 2015 and again to K9.87 per litre of petrol in July 2015. This drove an increase in annual inflation from 6.9% in May 2015 to 7.1% in July 2015.

It is worth noting that the depreciation of the Kwacha against the US Dollar has meant Zambians have not enjoyed the full benefits of declining world crude oil prices. The Government's sub-sector petroleum policy indicates that fuel prices in future will be cost-reflective. While the Government aims to keep inflation to single digits in 2015 and 2016, this policy may cause an increase in fuel prices to reflect the recent depreciation of the Kwacha.

Global crude oil prices are anticipated to increase at some point in the future. This, together with plans to introduce cost-reflective electricity tariffs, may further detract from the Government's single-digit inflation target.

Domestic and International Borrowing

At the end of August 2015, Government's external debt increased to US$6.3 billion from US$4.8 billion as at end of December 2014 (an increase of 31%). This increase was mainly attributed to the country's

Recently issued government debt has proved to be costly.

third Eurobond of US$1.25 billion, issued in July 2015.

The costs associated with issuing this Eurobond increased to US$4.14 million compared to US$1.4 million incurred on the debut bond issued in 2012. Further, the July 2015 Eurobond gave investors a yield of 9.38% making it *"the most expensive Dollar debt issuance for an African government"* (Bloomberg, 2015).

The Government has expressed an intention to undertake fiscal consolidation and increase reliance on external debt in the 2016 budget. The cost of future borrowing will have to be closely managed.

The country's domestic debt increased from K23.5 billion as at end of December 2014 to K26.5 billion as at end of September 2015 – an increase of 12.8%. This was on account of an increase in the stock of Government securities.

The Government has set up a Sinking Fund to prepare for repayments of its Eurobonds.

In 2016, Government proposes to reduce the budget deficit to 3.8% of GDP from 6.9% of GDP projected in 2015. Further, it intends to limit domestic borrowing to 1.2% of GDP as it will focus on accessing external financing with lower interest rates and longer repayment periods.

It is encouraging to see the Government has taken steps to ensure the timely repayment of the three Eurobonds as well as the eventual redeeming of the bonds by establishing a Sinking Fund in the 2016 budget.

Interest Rates

Interest rates in Zambia remain high and are predominantly driven by the cost of funds/capital, credit risk and high operating costs impacting financial institutions. Government recognises this fact and the negative impact that high interest rates may have on the Small to Medium Enterprise sector.

To mitigate high interest rates, Government plans to consolidate the fiscal position by limiting domestic borrowing and focussing on accessing more external debt to finance increasing expenditure.

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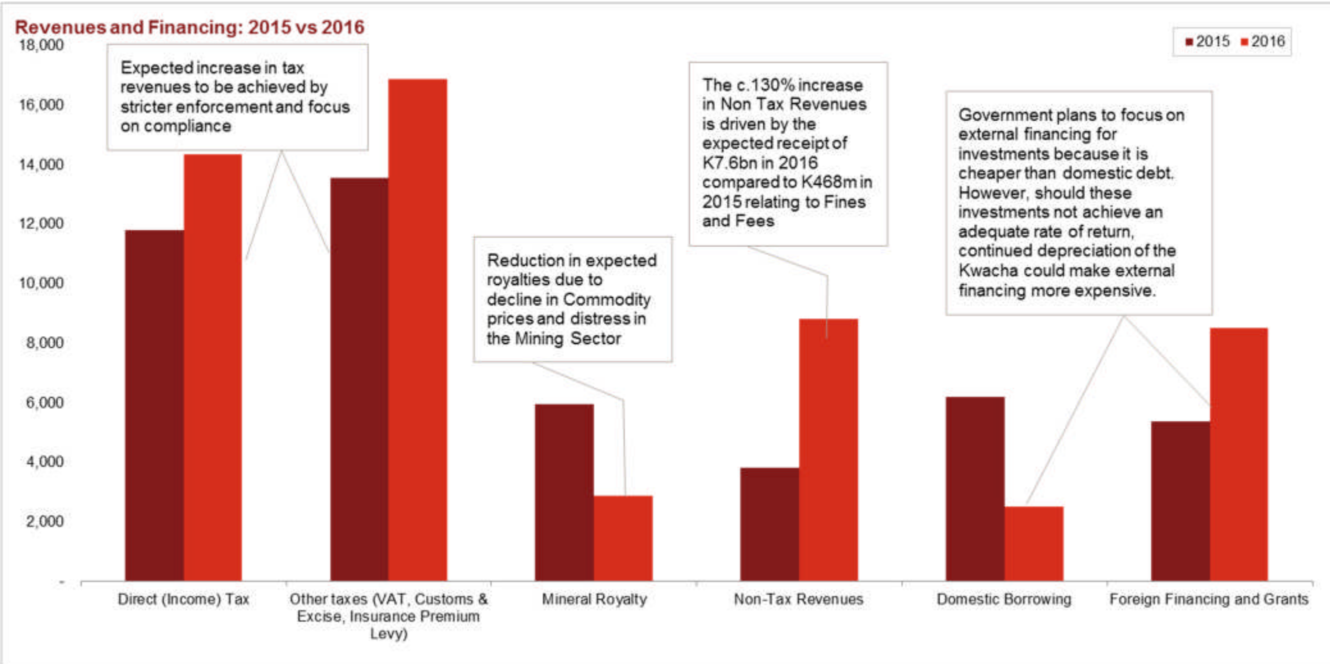
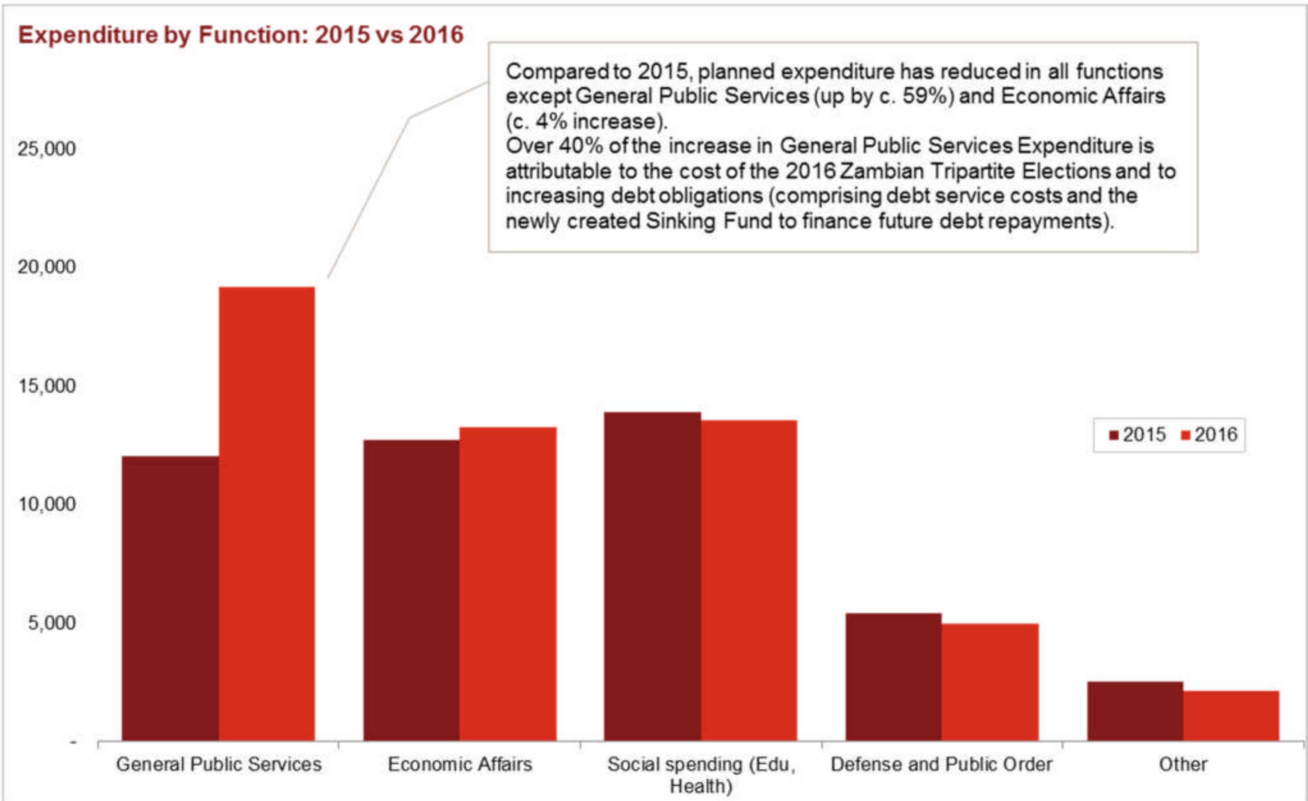
Summary of the 2016 National Budget





Reduction in harvested maize tonnage by 26% from the 3.35 million metric tonnes in the 2013/2014 season

Agriculture contributed 19.8% to the 2014 GDP

Sector Analysis

Agriculture

The Government has continued to focus on the agriculture sector as a key contributor to the country's GDP with the strategic focus being to achieve food security and promote crop diversification. In order to attain this, the Government has allocated about K1.7 billion to the sector.

The performance of the agriculture sector during the 2014/2015 farming season was unfavourable owing to inadequate rainfall, highlighting the challenge of over-reliance on rain-fed agriculture. During the 2014/2015 farming season, the country recorded a 26% reduction in harvested maize from 3.35 million metric tonnes in the previous year to 2.5 million metric tonnes.

As a demonstration of Government's commitment to diversification, the electronic voucher system will continue to be implemented during the 2015/2016 agricultural season. The Government has allocated K254.9 million for farmers to purchase inputs using the E-voucher system.

The objective of the E-Voucher System is to enable farmers to have access to subsidised inputs in a timely manner and to encourage farmers to diversify as they will have access to a wide range of inputs to select from. It also aims to promote private sector participation.

Other areas of focus in the agriculture sector for the coming year include:

- Implementation of the Irrigation Development Support Programme. This will add 5,000 hectares to the existing 17,500 hectares under irrigation in the 2016. This project is aimed at reducing reliance on rain fed agriculture in light of the current unreliable weather patterns.

- Enhancing extension and disease control service centres.

- The establishment of a Ministry of Livestock and Fisheries to stimulate growth in the livestock and fisheries sub-sectors.

Tourism

The government has continued to prioritise the development and rehabilitation of key tourism infrastructure, such as accessible roads to tourist sites, airports and cultural centres. In addition, promotional and marketing strategies will be employed in order to increase the sector's contribution to GDP and employment.

With regards to airport infrastructure, Government has allocated K498 million for the upgrading and expansion of the Kenneth Kaunda International Airport and for the establishment of a national airline in 2016 to increase access by air. The establishment of a national airline is expected to increase tourist arrivals

Health allocation as a total of budget has reduced from 9.6% per 2015 budget to 8.6% per 2016 budget

17% of the health budget has been allocated to purchase of drugs and medical supplies.

and facilitate their in-country transportation.

Government will further operationalise the Tourism and Hospitality Act 2015 so as to provide for sustainable development of the tourism industry through effective tourism planning, management and coordination

In a bid to improve the operations and management of National Parks, the Honourable Minister of Tourism and Arts, Jean Kapata earlier announced the abolition of the Zambia Wildlife Authority (ZAWA) and the creation of the Department of National Parks and wildlife. The process for the winding – up of the affairs of ZAWA is in process.

Education and Skills Development

To increase access to quality education, Government will focus on completion of various education infrastructure currently under construction including early childhood, primary and secondary facilities. Furthermore, teacher recruitment and retention at all levels will continue in order to reduce the pupil-teacher ratio.

A total of K9.1 billion (2015 budget: K9.4 billion) has been allocated to education and skills development. Of this, K1.0 billion is earmarked for various infrastructure projects in the sector, such as schools and trade training institutes, while K217.8 million is for the recruitment of 5,000 additional teachers.

Government will operationalise Robert Makasa University in Muchinga province and commence the construction of King Lewanika University in Western Province, Luapula University in Luapula Province and three university colleges in Katete, Nalolo and Solwezi.

To enhance the cognitive ability of vulnerable children and encourage school attendance, K35.6 million has been allocated to rolling out the School Feeding Programme, which has proven to be a very successful programme especially in rural schools.

To improve access to tertiary education, the allocation for bursaries has been increased to K311 million from K200.2 million in the previous year. This is planned to operate as Student Loans Scheme

Health Sector

The health sector continues to be a focus for the Government. However, there has been a reduction in the budget allocation from K4.464 billion in 2015 to K4.431 billion in 2016, representing a 1% reduction. The 2016 budget allocation to health as a percentage of total expenditure is 8.3% against 9.6% in 2014. The government proposes to continue investing in health infrastructure, medical drugs and training of health personnel.

The following are the key areas of focus in the budget

- The government has budgeted K340.7 million for construction of health facilities.

- K73.8 million has been allocated to recruitment and retention of frontline medical personnel, and the establishment of regional drug supply hubs to enhance the distribution of drugs.

Government also plans to establish a National Social Health Insurance Scheme and has allocated K6.3 million for this activity. The scheme is a health financing mechanism that insures the national population against the health care costs. A draft bill is yet to be presented to parliament to explain the modalities of the scheme.

Recapitalisation of Development Bank of Zambia and National Savings and Credit Bank

Manufacturing

In line with the diversification agenda, the growth of the manufacturing sector is critical. In this regard, government will continue to support micro, small and medium enterprises with access to finance, markets and technology. Government is currently supporting more than 1,800 manufacturing projects in 42 districts to promote local value addition. This has created opportunities for employment and income generation. To further support the sector, public procurement guidelines have been revised to make procurement of locally manufactured goods valued at K3 million or less mandatory.

This will help create an opportunity for local manufacturers and challenges local manufacturers to build up capacity.

Government will continue to allocate Funds to the Citizens Economic Empowerment Commission and further recapitalise the Development Bank of Zambia, National Savings and Credit Bank and other empowerment agencies to ensure SMEs have access to affordable financing.

To ensure the quality of domestically produced goods, government has restructured the Zambia Bureau of Standards to monitor and ensure that the quality of domestically produced goods meet international standards.

Energy infrastructure projects on course

Energy Infrastructure

The country is currently experiencing a power deficit of 985 Megawatts due to a shortfall in installed capacity and reduced generation due to lower water levels. This has negatively impacted on the economy, especially those running small businesses. To cushion the impact of the power deficit, Government has taken short-term measures, which include importation of electricity from neighbouring countries. However, this comes at a cost and is not sustainable in the long-term.

Planned energy infrastructure adequate to cover current deficit

The long-term measures being taken by Government to cover the deficit include rehabilitating old power stations. This has seen the upgrade of the Kafue Gorge power station from producing 900 to 990 Megawatts, the reinstating of Victoria Falls power station to its full generating capacity of 180 Megawatts and the upgrading of the Kariba North Bank power station from 600 to 720 Megawatts, among others.

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Government has partnered with the Government of the Republic of Zimbabwe to explore the possibility of developing a 1,800 Megawatt power station at Batoka Gorge in Southern Province at an estimated cost of US$4 billion. Government is also looking to establish the Kafue Lower hydro plant, which upon completion will generate 750 Megawatts of electricity

In line with the diversification agenda, Government has begun to actively pursue alternative sources of energy such as thermal, solar, wind and bio-mass. Government through the Industrial Development Corporation is implementing a solar-based renewable energy programme to redress the current power deficit. This solar project will add 600 Megawatts in the medium to long term to the National grid. Government will also commission the coal-fired power station at Maamba Collieries and the Itezhi-Tezhi hydro power station. The 2 projects will contribute an extra 420 Megawatts to the national grid by January 2016.

Low copper prices and escalating costs impacting production

ZESCO has recently proposed to revise the electricity tariffs upwards from an average retail tariff of 5.64 to 10.35 cents per kilowatt hour. The high tariffs are meant to attract investments in the energy sector, particularly those in the renewable energy, such as solar and waste-to-energy projects.
Furthermore, government will implement the following measures; an increase in the capital allowance in the equipment used in the generation of electricity from 25% to 50%; extend the period for carrying forward losses for businesses involved in electricity generation using other sources of energy such as wind and solar but excluding wood to 10 years; and increase input VAT claim period from two to four years.

On the down side, the increased tariffs will increase costs of production and restrict economic activity. They also bring with them inflationary pressures.

Mining

The continued significance of the mining sector to the overall economy has been apparent in 2015. The fall in global copper prices from an average of US$6,829 per metric tonne in 2014 to US$5,160 in 2015 following the slowdown in the Chinese economy has had a negative impact on the economy as a whole, with reduced foreign exchange inflows as well as job losses.

2015 copper production target is unlikely to be met

As well as low copper prices, electricity constraints faced by the sector have threatened the achievement of the projected 808,000 metric tonnes copper production for the year. As at the end of August, production for the year stood at 441,584 metric tonnes. In September, Mopani and Luanshya Copper Mines both announced significant job cuts at their operations citing rising costs and power shortages as making production uneconomical. The Government continues to dialogue with the mining companies to reach a favourable outcome as these job cuts are likely to have a significant impact on the local economies of Kitwe and Luanshya.

National Airline carrier budgeted and completion of KK Airport budgeted at

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In April, Government announced it would revert to the previous Corporate Income tax structure and reduce the mineral royalty rate to 9% and 6% from 20% and 8% for open cast and underground mines respectively. This change was enacted on 1 July 2015 and was generally well received. Policy consistency has long been a cry of the sector and it is welcome to note that the 2016 budget maintains the current enacted tax regime.

The Minister has called for the Industrial Development Corporation to drive the diversification of opportunities in the mining sector as well as exploit other minerals. The call to reduce the reliance on copper mining is welcome and we wait to see the practical actions that will be taken to achieve this.

The announcement that the development of the Mineral Output Statistical Evaluation System has reached an advanced stage is positive news. It is hoped that once implemented, the system will enhance transparency and give credibility to data from the sector.

Transport sector

As in the previous year, the Government has continued to focus on implementing various road infrastructure programme under the Link Zambia 8000, Lusaka L400, Copperbelt C400 and the Pave Zambia 200.These projects have so far created 6,000 jobs. In the current budget a total of K6.6 billion has been allocated to this sector against K5.6 billion in the 2015 budget.

Under the link Zambia 8000, the Government has reserved some road projects for locally owned companies with a local shareholding of at least 50.1%.

Government is exploring financing certain commercially viable road projects through the Public Private Partnership Model (PPP).

In addition to the road projects, the Government has set aside K498.4 million for the continued upgrade of the Kenneth Kaunda International Airport and for the establishment of a national airline.

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Direct Taxes

Corporate Income Tax rate remains unchanged

10 year carry over period of losses extended to wind and solar power generation

Reduction of Property Transfer tax on land and shares

Corporate Income Tax (CIT)

The CIT rate of tax for the majority of businesses remains at 35%.

In addition to revising the electricity tariffs, the Minister proposes the following measures to encourage private sector investment and development of alternative sources of energy:

Capital allowances for implements, plants and machinery used in the generation of electricity to be increased to 50%. The current rate of capital allowance is 25%.

The carry over period of losses for entities involved in the generation of electricity using wind and solar power excluding wood will be extended from five to 10 years.

Currently, the 10 year loss carry forward period in the energy sector, only applies to entities involved in the generation of power using hydro and thermal energy.

Housekeeping measures

The following housekeeping measures were announced:

The 2% discount on applicable corporate tax rate for entities listed on the Lusaka Stock Exchange (LuSE) will only be applicable in the first year of listing and will only apply to companies whose shares are listed on the LuSE.

The 5% reduction of the applicable CIT rate for companies whose shares are listed on LuSE is only applicable where one third of the shares are held by indigenous Zambians for as long as they maintain the one-third threshold.

Due date for submission of tax returns

Currently the due date for submission of both manual and electronically filed provisional and annual corporate income returns is 31 March (in the current charge year) and 30 June (following the end of the charge year) respectively.

It is proposed that the submission of a manual provisional income tax return is brought forward to 5 March in the current charge year. In addition, the submission of manual corporate income tax return is brought forward to 5 June following the end of the charge year.

This measure is intended to encourage electronic filing.

Property Transfer Tax

Currently, Property Transfer Tax applies on the transfer of land, shares and mining rights at a rate of 10%.

The Minister proposes to reduce the rate of tax for transfer of property and shares from 10% to 5%.

This measure is intended to encourage completion of property transfers and enhance compliance.

Effective date

The above measure will take effect on 1 January 2016.

Direct Taxes

No change to personal income tax rates and thresholds

Landlords to remit withholding tax in circumstances where tenants are privileged persons, boarding houses etc.

Withholding tax will apply at a rate of 15% on management and consultancy services provided by resident consultants

Removal of Withholding tax applicable on discount income, but maintaining this on coupon income

Pay As You Earn (PAYE)

Tax bands unchanged

As was the case in the last Budget, the rates and thresholds for personal income tax/PAYE remain unchanged in the 2016 National Budget. The first K3,000 of monthly earnings remains tax free.

The top 35% rate on income tax continues to apply on monthly earnings over K5,900.

The impact of not increasing the tax exempt threshold or tax bands to take account of inflation and the increase in cost of living will reduce the spending power of workers.

Other Direct Taxes

Withholding Tax (WHT)

Landlord to account for withholding tax in certain circumstances

The Minister has transferred the obligation to withhold and account for withholding tax (WHT) on rentals from the tenant to the landlord in certain circumstances. Currently, tenants are required to withhold tax at 10% on rental income. However, the Minister now proposes that in circumstances where the tenant cannot withhold, the landlord will be expected to account for the WHT on the rental income.

Examples of the circumstances where the tenant cannot withhold, as provided by the Minister, include certain categories of tenants such as privileged persons (e.g. Diplomats etc.), tenants on shared cost arrangements and boarding houses.

This measure is intended to address some of the existing administration and compliance challenges of the tax.

The current requirement for tenants to withhold tax on rentals is generally burdensome for private individuals at large, and it would have been preferable if this measure had been extended to rentals for all residential properties.

Restructure of withholding tax on interest on Government bonds

The Minister has proposed the removal of WHT on discount income on Government bonds, whilst proposing for the retention of WHT on coupon income.

This measure is intended to reduce the complication of pricing of bonds on the secondary market, and therefore promote growth of the secondary market.

Currently, interest income earned on government bonds, whether arising from discount or the coupon rate is subject to WHT.

Tracking and distinguishing the initial bond price and actual discount (which is subject to WHT) on Government bonds traded on the secondary market is practically difficult. Hence it is difficult to determine the actual WHT liability.

Withholding tax on management and consultancy services by resident consultants

The Minister has proposed for the introduction of WHT at 15% on management and consultancy services provided by resident consultants. This will not be the final tax.

Currently, there is no WHT on management and consultancy services provided by consultants that are resident in Zambia.

This measure is intended to widen the tax base by capturing the growing number of businesses providing consultancy services.

As the definition of management and consultancy fees potentially includes the fees earned by lawyers, professional services firms, architects, and similar service providers, this could increase the compliance burden.

As the WHT is not the final tax, this measure is also likely to result in a cash-flow disadvantage for such firms.

From the Government perspective, it will result in an advance payment of tax.

Clarity on the tax treatment of withholding tax on winnings from gaming, lotteries and betting

A 20% WHT was introduced on winnings from gaming, lotteries and betting in the 2014 National Budget.

There is now further clarity on the tax treatment of payment of winnings from gaming, lotteries and betting. When such winnings arise by virtue of one's employment, from a promotion run by their employer, and where an employee receives such winnings, the winning will be subject to PAYE, not WHT.

Effective date

The above measures will take effect on 1 January 2016

Indirect Taxes

Period to claim input VAT for intending trader for electricity generation to be increased to 4 years

Removal of VAT on nonlife insurance premiums

Use of electronic fiscal cash registers for VAT registered retailers to be introduced

Provisions on confidentiality of taxpayers' information to be introduced

VAT

Intending trader scheme

The Finance Minister proposes to amend the "intending trader" scheme with respect to claims made for input VAT.

The period for claiming input VAT by intending traders for electricity generation will be increased from 2 years to 4 years.

This measure is aimed at encouraging capital investment in the energy sector and the development of sustainable and alternative sources of energy.

Removal of VAT on nonlife insurance services

In 2011, VAT was introduced on the provision of non-life insurance premiums. Currently, property and/or non-life insurance policies attract VAT at 16% while premiums on life insurance and re-reinsurance policies are exempt from VAT.

Whilst this measure increased the cost of insurance for non-commercial customers, insurance companies benefitted as they are able to claim a portion of input VAT incurred on goods and services purchased for business purposes.

As input VAT is only claimable on taxable supplies, the process of claiming input VAT on hybrid insurance policies which may both have life and non-life components became administratively challenging and burdensome.

The Minister proposes to remove VAT and instead introduce a levy at the rate of 3% on all insurance premiums.

This measure is aimed at simplifying the taxation of insurance premiums.

The impact of the proposed change on the insurance industry will depend on:

1) The mix of insurance products sold (i.e. whether there is greater proportion of life insurance products vs property insurance); and
2) The extent to which the tax costs can be passed on to the customer.

Introduction of fiscal cash registers

The Minister proposes to introduce measures that will require VAT registered suppliers to use electronic fiscal registers (EFRs) that will be interfaced with the TaxOnline System.

This measure is aimed at replacing the cash registers used by VAT registered retailers. This will allow real time capture of transactions for VAT compliance purposes and reduce under declarations.

To implement this, the government will need to invest significantly in information technology.

Secrecy provisions

The Minister proposes to amend the VAT Act to include Secrecy Provisions to safeguard the confidentiality of taxpayers' information.

This means that taxpayers' information in the custody of ZRA will only be disclosed with express permission of the Commissioner-General of ZRA, for purposes of compilation of statistics or when ordered by a Court of Law.

Group VAT registration for exempt suppliers

Currently, a group of companies incorporated in Zambia, irrespective of the nature of their supplies that have common control may, subject to

Exempt suppliers not allowed to form part of a VAT group

ZRA approval, apply for a single VAT registration. The key requirement is that the companies should have common control.

It is proposed that the VAT Act be amended to clarify that businesses involved solely in the supply of exempt supplies are not allowed to form part of a "recognised group" for VAT registration purposes.

Other measures

The VAT (Exemption) Order, in particular, Group 7 with respect to exempt Financial Services, will be amended to clarify those financial services and products that will qualify for VAT exemption. This measure is aimed at removing duplications and will also result in an updated list of qualifying financial services.

The VAT (Exemption) Order will also be amended to clarify that wheat will be treated as a zero rated supply.

The VAT (Zero rating) Order with respect to exports is to be amended. Tourists will now only be able to benefit from zero-rating if they purchase goods and services from ZRA approved retailers that operate under the Tourist Refund Scheme.

Effective date

All of the above measures will take effect on 1 January 2016.

Indirect Taxes

Customs and Excise

Pitch coke and petroleum coke

Removal of customs duty on pitch coke and petroleum coke

The Minister proposes that customs duty of 5% and 15% be removed on pitch coke and petroleum coke respectively.

The principal objective of this measure is to increase accessibility to alternative sources of energy in the manufacturing industry.

Pitch coke is also an essential raw material for building production equipment for semiconductors or solar array panels.

In addition to increasing the number of alternative sources of energy, it is hoped that the demand of hydro-electricity will be reduced in the long run.

Clear beer

Reduction of excise duty rate from 60% to 40% on clear beer

There is a proposal to decrease the excise duty rate on clear beer from 60% to 40%. The proposed reduction will reduce the cost of clear beer.

The proposed change is intended to encourage investment in the industry, assist in curbing smuggling and, demand and production of illicit beers.

If the brewers pass on the savings to consumers, this could result an increase in demand for clear beer. This should positively impact the Zambian brewing industry.

Greenhouses and rose seedlings

Removal of customs duty rates on importation of greenhouses and rose seedlings

The Minister proposes to remove customs duty of 15% and 5% on greenhouses and rose seedlings respectively.

The measure is intended to promote economic diversification and increase non-traditional exports.

Transmission apparatus for television and radio

Suspension of 15% customs duty on transmission apparatus for television and radio for 2 years

Currently, transmission apparatus for television and radio attract customs duty at the rate of 15%.

The Minister proposes to suspend customs duty on the importation of transmission apparatus for television and radio.

This is intended to mitigate the Digital Migration cost for both broadcasters and consumers.

It is also intended to promote investment in community based television and radio stations.

Cigarettes

Increase of excise duty on cigarettes from K90 to K200 per 1000 sticks at importation

The Minister proposes to increase excise duty rate on cigarettes to K200 from K90 per 1,000 sticks at importation and maintain the ad valorem rate of 145%.

The proposed change is intended to discourage importation of cigarettes and to promote local production of cigarettes.

To further support local manufacture, the Minister has also proposed to introduce incentives.

Wood products

Increase of customs duty from 25% to 40% on imports of wood and wood products

The Minister proposes to introduce an export duty on unprocessed wood at 40% and semi-processed wood at 20%.

In addition, there is a proposal to increase customs duty on wood and wood products from 25% to 40%.

The proposed change is intended to promote local manufacturing and value addition.

Indirect Taxes

Increase specific duty rate on refined edible oil

Increase excise duty on plastic bags

Increase customs duty on importation of vehicles to 30%

Introduction of surtax of K2,000 on imported vehicles older than 5 years

Introduction of an Electronic Cargo Tracking System

Refined edible oil

The Minister proposes to increase the specific customs duty rate on refined edible oil from K2.20 per kilogram to K4.0 per kilogram.

This proposed change is intended to promote and protect local production.

Plastic carrier bags

Excise duty on plastic carrier bags is to increase from 10% to 20%.

This proposed change is intended to discourage the use of plastic carrier bags to mitigate their impact on the environment.

Motor vehicles

The Minister proposes to increase customs duty on selected types of vehicles, excluding buses, trucks, ambulances, prison vans and hearses to 30%.

This measure is intended to raise revenue for the government.

The Minister further proposed to introduce a surtax of K2, 000 on all imported motor vehicles older than five years from the year of manufacture.

This measure is intended to discourage the importation of vehicles older than 5 years from the year of manufacture to mitigate the adverse effect on the environment.

It is further proposed that a standard valuation method on second hand vehicles based on parameters to be prescribed by Statutory Order should be introduced.

The aim is to ensure that the amount of tax payable is consistent for similar motor vehicles.

Wattle extract and Chrome Powder

The Minister proposes to remove customs duty on Wattle extract and Chrome Powder currently at 5% and 25% respectively.

This proposed measure is intended to promote investment in the local leather industry.

Electronic Cargo Tracking System (ECTS)

The Minister proposes to introduce an ECTS to ensure real time monitoring of cargo movements transiting through Zambia.

This measure is aimed at mitigating revenue leakages perpetrated through transit fraud.

When implemented and fully operational, this measure should enhance the operations of the ZRA.

To implement this, the Government will need to invest significantly in information technology.

Effective date

All of the above measures will take effect on 1 January 2016.

Housekeeping measures

Powers of Commissioner General to amend rates

The Customs and Excise Act will be amended to provide for the Minister to prescribe by Statutory Order for the Commissioner-General of ZRA to amend certain rates under the Customs and Excise Act.

This measure is intended to provide for a structured and predictable adjustment mechanism for all the specific tax rates in order to allow for regular adjustments of these rates as

ZRA Commissioner-General to have powers to amend some specific rates

and when the Commissioner-General of ZRA considers necessary.

Revision of ASYCUDA fee

ASYCUDA fee to be increased from K125 to K325

The ASYCUDA fee will be increased from 415 fee units to 1,082 fee units (i.e. K125 to K325).

This measure is aimed at having a fee reflective of the cost of maintaining the tax administration system.

This would be the second revision of the ASYCUDA fee within a period of 6 months. Following the publication of Statutory Instrument No. 41 of 2015 in July 2015, the ASYCUDA fee was increased from K83 to K125.

Retention of documents

Retention of customs and excise records for six years

The Customs and Excise Act will be amended to increase the time required for a taxpayer to keep records for tax assessment purposes from five years to six years.

However, where there is evidence of wilful default or fraud, the Commissioner-General of ZRA may make an assessment of taxes beyond six years. This will now be aligned with the Income Tax Act and VAT Act.

Penalty for late clearance of goods

Introduction of late clearance penalty of K900 per day for goods allowed for in-bond carriage

A penalty of 3,000 fee units (K900) per day will be levied for late clearance of goods allowed into the country for in-bond carriage to another customs port for further entry after expiry of the statutory limit of 15 days.

Other measures

Other housekeeping measures include:

- Introduction of rules for self-assessment as the Commissioner-General of ZRA may prescribe.
- Provide classification codes for copper blister, mineral ores and mineral concentrates according to output from mining activities.

  This measure is intended to sub-divide the tariffs for mineral ores and mineral concentrates to improve monitoring of mineral production and export. It is also aimed at enhancing accurate capture of descriptions, value and trade quantities.
- Introduction of provisions that extend the liability for an offence committed by a corporate body to be extended to directors or principal officers of the body, where such officers have knowledge of the offence.
- Provide for accreditation of employees of clearing agents that directly handle customs business.

  This is intended to enhance professionalism and safeguard government revenue.
- Amendment of the law to harmonise the treatment of consumable items imported by third parties acting on behalf of donor funded organisations to the treatment when the consumables are directly imported by the donor funded organisations.

  This is intended to ensure that the treatment of the imports for the benefit of donor funded projects is the same irrespective of whether it is the donor funded organisation importing or a third party.
- Amendment of the Customs and Excise Act to align it to the changes made to the Mines and Minerals Development Act of 2015 and Tax Appeals Tribunal Act.

No changes to the mining tax regime in 2016

No changes to the mining tax regime

Whilst the current budget announcement does not provide for any change to the mining tax regime, there have been several significant changes during the year which are worth mentioning.

1 January 2015 to 30 June 2015

- Corporate income tax rate applicable on the **mining operations** with an exception of mineral processing was revised from 30% to 0%.
- Variable Profits Tax of up to 15% applicable when the taxable income exceeded 8% of gross sales was abolished.
- Mineral royalties on the norm value of base metals produced or recoverable was increased from 6% to 20% on open cast mining and 9% on underground mining.

This effectively changed the mining tax regime from a profit based taxation system to a revenue based taxation system.

These changes where met with strong opposition from the mining sector as they coincided with low copper prices and cash flow problems exasperated by strict enforcement of VAT Rule 18.

Additionally, Variable Profits Tax of up to 15% was introduced on profits earned by **mineral processing** companies.

1 June 2015 to date

In June 2015, following a significant decline in copper prices which rendered mining operations unprofitable and unsustainable, government once again revised the mining tax regime as follows:

- Corporate income tax rate was reinstated to 30%.
- Reintroduction of Variable Profits Tax of up to 15% where the taxable income exceeds 8% of gross sales.
- Mineral royalties on the norm value of base metals produced or recoverable was revised to 9% for open cast mining operations and 6% for underground mining operations.

The rules under VAT Rule 18 which previously required exporters to obtain import documents from the customs authority of the country of destination were relaxed. They were amended on 20 February 2015 to include acceptance of transit documents from the country of transit as proof of export.

Additionally, corporate income tax applicable on mineral processing companies was revised from 30% to 35%, and Variable Profits Tax on mineral processing was abolished.

Reporting of mineral production and exports

Reporting of mineral production and exports

The Minister now proposes the subdivision of tariff classification codes for copper blister, mineral ores and mineral concentrates according to output from mining activities. The measure is intended to enhance monitoring of mineral production and export. The proposed tariff sub-divisions will provide for accurate capturing of descriptions, value and trade quantities.

The government has been progressively aiming to improve mineral monitoring in the country. This is evidenced by the introduction of the reporting requirements in 2012 and imposition of penalties on inaccurate reports in 2013. This change is a natural progression towards closer monitoring of the mineral production and values.

Major historic changes with regards to the mining industry

Changes to the mining tax regime in the past

Over the past several years the mining industry in Zambia has faced many changes to the tax regime. We highlight below a summary of key changes.

Mineral Royalty (Base metals only)

- 2008 – mineral royalty was applied at 3% of the norm value of base metals, a change from the negotiated royalty rates under the development agreements;

- 2012 – mineral royalty rate increased to 6% of the norm value of base metals;

Corporate Income tax

- 2008 - Development Agreements abolished;

  Corporate income tax rate was harmonised for all mining companies to 30%;

  Introduction of Variable Profit Tax of up to 15% where the taxable income exceeds 8% of gross sales;

  Introduction of windfall tax triggered at different metal price levels.

- 2009 – Windfall Tax abolished.

Capital Allowances

- 2008 – The rate of capital allowances reduced from 100% to 25% per annum. This was phased down over 2 tax years.

- 2009 –The rate of capital allowance reinstated to 100%.

- 2013 - The rate of capital allowances reduced from 100% to 25% per annum. This amendment also specified that capital allowances would now only be available on assets that have been brought to use.

Corporate tax rates

	2016	2015
Standard rate	35%	35%
Banks	35%	35%
Telecommunication companies		
Income not exceeding K250,000	35%	35%
Income exceeding K250,000	40%	40%
Farming	10%	10%
Income earned from organic fertilizer	15%	15%
Export of non-traditional products*	15%	15%
Foreign earnings of Sun International Limited	15%	15%
All other companies except mining companies	35%	35%
New listings on LuSE**	2% discount	2% discount
New listings on LuSE> 33% shares taken up by Zambians	2% discount	2% discount
Listings on Luse>33% shares taken up by Zambians	5% Discount	5% Discount
Turnover tax levied on business with turnover below K800,000 (excludes passive income and income earned from consultancy services, property rental, mining and VAT registered businesses)	3%	3%
Advanced Income Tax (upon importation of goods for commercial purposes in the absence of a valid tax clearance certificate)	6%	6%

Capital deductions***

	2016	2015
Investment allowance on industrial buildings****	10%	10%
Initial allowance on industrial buildings****	10%	10%
Industrial buildings allowance	5%	5%
Commercial buildings allowance	2%	2%
Implements, machinery and plant		
Used for farming, manufacturing, tourism, leasing	50%	50%
Used for electricity power generation	50%	25%
Implements, machinery and plant- Other	25%	25%

Motor vehicles

	2016	2015
Commercial	25%	25%
Non-commercial	20%	20%

Farming

	2016	2015
Farm improvement/ Farm works allowance	100%	100%

Carry forward of Trading losses	No. of years	No. of years
Non - mining companies	5	5
Hydro and thermo power generation companies	10	10
Other power generation companies (wind and Solar) excluding wood	10	5

* 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.

Mining Companies - Income Tax

	2016	2015 (July – December)	2015 (January – June)
Corporate Income Tax rate			
Mining Profits Profits earned from mining operations (for both base metals and industrial minerals)			
(a) Where taxable income exceeds 8% of gross sales	BR + VPR**	BR + VPR**	0%*
(b) Where taxable income does not exceed 8% of gross sales	BR	BR	0%
Mineral Processing	35%	35%	30%
Mineral Royalty Rate			
*On **norm value** of minerals/precious metals **under licence**:*			
Underground Mining Operations	6%	6%	8%
Open Cast Mining Operations	9%	9%	20%
*On **gross value** of gemstones/energy minerals **under licence**;*			
Underground Mining Operations	6%	6%	8%
Open Cast Mining Operations	9%	9%	20%
*On **gross value** of Industrial Minerals*	6%	6%	6%
*On **norm value** of minerals/precious metals **without licence**:*			
Underground Mining Operations	9%	9%	20%

Open Cast Mining Operations	9%	9%	20%
*On **norm value** of gemstones/energy minerals **without licence**:*			
Underground Mining Operations	9%	9%	20%
Open Cast Mining Operations	9%	9%	20%

Industrial Minerals : includes a rock or mineral other than gemstones, base metals, energy minerals or precious metals used in their natural state or after physical or chemical transformation. Examples include salt, sand, clay, talc, laterite, gravel, potassium minerals, granite and magnesite.

0%*: Corporate income tax was levied at the rate of 0% on profits of mining entities involved in underground mining operations and open cast mining operations from 1 January 2015 to 30 June 2015. These entities were only subject to the increased mineral royalty tax.

The basic and variable profit tax regimes applicable to income from mining operations are calculated as follows:

Basic Rate (BR) **	30%
Variable Profit Rate (VPR) ***	15%

Withholding Tax on dividends paid by companies carrying on mining operations

	Resident	Non Resident
Dividend	0%	0%

Income Tax Individuals

2016
Monthly income bands

	Income from K	**Income to K**	**Tax rate %**	**Tax on band (maximum) K**	**Cumulative tax on income (maximum) K**
First	0	3,000	0	0	0
Next	3,001	3,800	25	200	200
Next	3,801	5,900	30	630	830
Over	5,900		35		

2015
Monthly income bands

	Income from K	**Income to K**	**Tax rate %**	**Tax on band (maximum) K**	**Cumulative tax on income (maximum) K**
First	0	3,000	0	0	0
Next	3,001	3,800	25	200	200
Next	3,801	5,900	30	630	830
Over	5,901		35		

Housing benefit taxable in the hands of the employer

Rate at which employees annual taxable emoluments disallowed 30%

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

Dividends from Lusaka Stock Exchange

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

Withholding Tax (WHT)

	Resident	Non Resident
Dividend	15%*	15%*
Interest	15%	15%
Interest from a LuSE listed Property Loan Stock Co	0%	15%
Discount income (Interest) on Government Bonds	0%	0%
Coupon Income (Interest) on Government Bonds	15%	15%
Management or consultancy fee	15%	20 %
Royalties	15%	20%
Rent from a source within the Republic	10%**	10%
Commissions	15%	20%
Non-resident construction and haulage contractor	n/a	20%
Non-resident entertainers/sports persons fees	n/a	20%

Note: The above rates, except for WHT rates on discount income on government bonds, and WHT rates on management and consultancy fee for resident persons, are unchanged from 2015.

* 0% for dividends paid by LuSE listed companies to individuals.
**10% rent paid to a Zambian resident is a final tax.

Tax Treaties

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

* These treaties have not been ratified and are therefore ineffective currently
**Status of tax treaty currently uncertain
*** These treaties are currently under review

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%*

*services are deemed to be exports only when physically rendered outside Zambia

Registration

Threshold	K 800,000 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 a VAT refund claim

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

Property Transfer Tax (PTT)*	**2016**	**2015**
Land (including buildings)	5%	10%
Shares	5%	10%
Transfer or sale of mining right	10%	10%
Shares listed on the LUSE	0%	0%

*PTT is paid by reference to the nominal value or realised (open market) value whichever is greater

Insurance Levy	**2016**	**2015**
Charged on Insurance Premiums	3%	n/a

Zambia Development Agency

Concessions for Priority Sectors

The following incentives may be granted to an investor investing not less than US$500,000 in a priority sector or product in a Multi-Facility Economic Zone (MFEZ) or an industrial park or a rural area declared under the Zambia Development Agency (ZDA) Act in 2015:

- No Corporate Income Tax (CIT) on business profits for a five year period from the date of commencement of business operations.
- Withholding Tax (WHT) on dividends charged at 0% for a five year period from the date of commencement of business operations.
- 100% improvement allowance for tax purposes on capital expenditure for improvement and upgrading of infrastructure.

  Note: Where the concessions were granted in previous periods, these may no longer apply, or if they do, may be varied.

Carbon Tax

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

Note:

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

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

Presumptive Tax

Public Service Vehicle (PSV) operators are required to pay presumptive tax on each motor vehicle as follows:

Type of Vehicle	Tax per Vehicle per annum (2015)	Tax Per Vehicle per annum (2016)
64 Seater and above	K14,400	K14,400
50-63 Seater	K12,000	K12,000
36-49 Seater	K9,600	K9,600
22-35 Seater	K7,200	K7,200
18-21 Seater	K4,800	K4,800
12-17 Seater	K2,400	K2,400
Below 12 Seater	K1,200	K1,200

Deadlines and Penalties

2016 Deadlines	Penalty	Interest
Income Tax- Companies ***Provisional tax*** Return deadlines: Original Provisional Tax Return : 5 March 2016 (Manual Submissions) 31 March 2016 (Electronic Submissions) Revision of Provisional Tax Return: 30 June 2016, 30 September 2016 & 31 December 2016 (where applicable)	Provisional tax: Late filing of return: K600 per month or part month	N/A
Payment deadlines: Within 14 days following the return submission date	Late payment of tax: 5% per month or part month	Late payment: 2% + DR*
Note: *2/3 of the total tax liability payable by the final quarter*	Underestimation of tax: 25%	N/A
Final tax return & payment Deadline: 5 June 2017 (Manual Submissions) 30 June 2017 (Electronic Submissions)	Late filing of return: K600 per month or part month Late payment of tax: 5% per month or part month	N/A Late payment: 2% + DR*
Income Tax- Individuals ***Final tax return & payment*** Deadline: 5 June 2017 (Manual Submissions) 30 June 2017 (Electronic Submissions)	Late payment of tax: 5% per month or part month Late filing of return: K300 per month or part month	Late payment: 2% + DR* N/A
Withholding Tax (WHT) Filing & payment deadlines: Within 14 days after the end of the month of accrual / payment	WHT late payment of tax: 5% per month or part month WHT late filing of return: K102 per month or part month (*for companies*) K51 per month or part month (*for individuals*)	Late payment: 2% + DR* N/A

Payroll (PAYE)		
Filing & payment deadlines: Electronic returns to be filed within 14 days after the end of the month of accrual / payment.	PAYE late payment of tax: 5% per month or part month	Late payment: 2% + DR*
Manual returns to be filed within 5 days of after the end of the month.	PAYE late filing of return: K600 per month or part month	N/A
VAT		
Filing & payment deadlines: 21 days after the end of the accounting period* _* All annual Income Tax, PAYE and VAT returns should be submitted electronically to the ZRA except for certain small businesses with minimal transactions._	VAT late filing of return: Daily penalty- higher of K300 and 0.5% x tax payable VAT late payment of tax: Daily penalty- 0.5% x tax payable	Late payment: 2% + DR

Key
*DR= Bank of Zambia discount rate
** accounting period means the month following the month of registration and each succeeding calendar month

Foreign Exchange Rates Used by the Zambia Revenue Authority – January to October 2015

Period	Currency	Exchange Rate 1st -15th	Exchange Rate 15th –end
January	GBP	9.9571	9.9877
	US$	6.3961	6.5600
	ZAR	0.5553	0.5736
February	GBP	9.8215	10.3009
	US$	6.500	6.6822
	ZAR	0.5642	0.5709
March	GBP	10.6333	10.8528
	US$	6.8700	7.2903
	ZAR	0.5974	0.5947
April	GBP	11.2113	10.7116
	US$	7.5800	7.2513
	ZAR	0.6243	0.6034
May	GBP	11.4268	11.4264
	US$	7.4123	7.2333
	ZAR	0.6284	0.6128
June	GBP	11.1949	11.3721
	US$	7.3120	7.3220
	ZAR	0.6036	0.5905

Period	Currency	Exchange Rate 1st -15th	Exchange Rate 15th –end
July	GBP	11.7984	12.3069
	US$	7.5025	7.8676
	ZAR	0.6136	0.6367
August	GBP	11.9901	12.2893
	US$	7.6805	7.8647
	ZAR	0.6050	0.6152
September	GBP	13.2999	15.2366
	US$	8.6374	9.8783
	ZAR	0.6525	0.7307
October	GBP	18.4261	
	US$	12.1540	
	ZAR	0.8747	

Key:

* GBP – Great British Pound

* USD – United States Dollar

* ZAR – South African Rand

Notes

The information on this budget bulletin and tax data card is based on the budget pronouncements of 9 October 2015. The specific legislative provisions to effect the budget pronouncements are subject to enactment by Parliament. We therefore caution that the information highlighted in this bulletin and data card may be subject to change. Accordingly, you should confirm the current tax position as necessary.

We emphasise that the information on this budget bulletin and tax data card is generic and may be subject to update/amendment. Accordingly, you should seek specific advice and should neither act nor refrain from acting solely on the basis of the information provided here. PricewaterhouseCoopers Limited, its affiliates and/ or network firms shall have no liability for any action taken (or omitted) on the basis of the information provided on this bulletin and tax data card.