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Building resilience and unlocking potential

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Zambia's 2017 National Budget

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Commentary

PwC analysis and outlook

Walking a Fiscal Tightrope

Zambia's 2017 National Budget: Restoring Fiscal Fitness for Sustained Inclusive Growth and Development

It has been another tough year for Zambia's economy, with sluggish global growth, low copper prices and ongoing power shortages continuing to weigh on economic prospects.

In addition, a weak Kwacha has compounded Government's burgeoning debt obligations which, combined with increased Government spending, has prompted the fiscal deficit to balloon to an estimated 10% of GDP in 2016. This compares to Government's target of 3.8% announced in the last budget.

The new Minister of Finance, the Honorable Felix Mutati, faces a difficult balancing act ahead if he is to navigate the tightrope between fiscal prudence and the expenditure needed to transform Zambia into a middle income country by 2030.

Down to business

Mr Mutati, who was appointed Minister of Finance in September following His Excellency President Edgar Lungu's re-election to State House the previous month, has been quick to acknowledge public concerns about the economy. External and domestic headwinds mean that gross domestic product (GDP) growth has slowed to just above 3% in 2016 compared to a target of 5%, making poverty-reducing targets difficult to meet.

In October, Mr Mutati announced the launch of an Economic Recovery Programme, *Zambia Plus*. The programme, which will underpin this and future budgets, is built upon five pillars and aims to improve domestic resource mobilisation and public spending, enhance fiscal and economic governance, scale up social protection programmes, and create better economic stability through more consistent policy. Government hopes the plan will receive support from cooperating partners, including the International Monetary Fund (IMF). Negotiations with the IMF are expected to take place in Q1 2017.

The question now is can Mr Mutati translate his good intentions into solid fiscal policy?

Adopting more cost-effective measures

Zambia Plus is a laudable programme. However, there are few specific measures in the budget that give substance to its five pillars. This is perhaps to be expected given Mr Mutati's newness to the job plus Government's sizeable policy shift away from borrowing and spending towards economic judiciousness.

Notably, Mr Mutati does not provide details of how Government will cut spending. He does, however, say Government will adopt more cost-effective measures in areas where Government expenditure is high.

Government has been funding the current energy shortage by importing emergency power at a significant cost. Between September 2015 and May 2016, Government spent US$26 million per month on power imports.

Mr Mutati recognises in his speech that Government will need to move to cost reflective electricity tariffs by the end of 2017 if it is to address the shortfall and encourage private sector investment in new power generation. He does not indicate how much the increase in tariffs will be.

Elsewhere, positive steps have been made with regard to reducing expenditure on fuel subsidies. In October, Government announced an average increase in fuel prices of 32% as part of its ongoing effort to migrate to cost reflective fuel pricing.

Mr Mutati has also announced measures in the budget to improve efficiencies in the agriculture sector. In particular, a full move to the e-voucher system should ensure funds are better utilised and encourage crop diversification. He has also removed the export ban on maize and replaced it with a 10% levy on maize exports, noting that Government intervention on market prices has adversely affected production strategies.

Addressing public sector pay

In 2016, Government has recruited an additional 5,700 teachers and plans to employ up to 2,000 frontline medical personnel in 2017. These are positive steps towards addressing chronic staff shortages in two vital sectors.

However, there is no indication in the budget that Government plans to cut costs across the broader civil service, a strategy that has been encouraged by international organisations.

Revenue raising

Various measures have been introduced in this year's budget that risk increasing the cost of doing business in Zambia.

Proposed changes to taxes and levies within the transport sector will push up costs for many businesses operating in landlocked Zambia. Customs duty on spare parts is set to rise from 5% to 15% in 2017, a vehicle border fee will be introduced, and input valued added tax (VAT) on petrol is to be made non-refundable and the VAT claimable threshold on diesel will be limited to 90%.

Zambia's 11.5 million mobile phone users will also have to pay more to talk and surf on the internet following Mr Mutati's announcement that excise duty on air time will increase from 15% to 17.5% in 2017.

Mr Mutati has proposed the introduction of a "skills development levy" of 0.5% of a company's total emoluments to be paid by the employer. The money raised will be put into a skills development fund which will be jointly managed with the private sector. In addition, pension contributions are to increase.

These measures will increase employment costs and could deter businesses from recruiting additional workers.

Meanwhile, Pay As You Earn (PAYE) has increased from 35% to 37.5% for all employees earning over K6,200 per month. This makes Zambia's effective marginal PAYE rate one of the highest in the region.

Liquidity issues

The Bank of Zambia has used monetary policy effectively over the last 12 months to help stabilise the Kwacha and control inflation. Interventions have included forcing local banks hold higher reserve ratios, which has reduced domestic bank liquidity. Banks have also raised interest rates.

The upshot of this is that the private sector has struggled to access credit and this is hindering growth in a part of the economy essential to broader economic growth. To counter this, Government could look to reduce interest rates and make financing more accessible.

Bridging the budget divide

Mr Mutati's willingness to address the economy's shortcomings in his first budget is welcomed. As Mr Mutati aptly notes: "We cannot spend what we do not have. We cannot borrow beyond our ability to repay."

Will Mr Mutati's proposed budget measures enable him to bridge the fiscal gap and carry Zambia to economic safety?

Building resilience and unlocking potential

Zambia's 2017 National Budget

The Economy

PwC analysis and outlook

Total budget expenditure of K 64.5 billion representing 27.7% of GDP.

"Zambia Plus" programme to ensure sustained and inclusive growth.

The proposed 2017 Budget amounts to K 64.5 billion representing 27.7% of GDP. Of the total budget, K 42.9 billion (approx. 67%) will be financed through domestic revenues, K 2.23 billion (approx. 3%) through grants from the Government's Cooperating Partners and K 19.33 billion (approx. 30%) through debt financing from domestic and external sources.

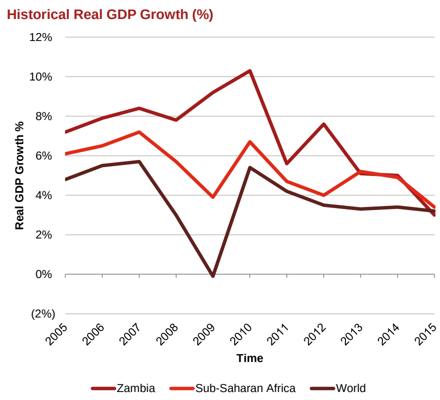
With this Budget, the Government aims to:

- Accelerate the dismantling of arrears to suppliers of goods and services;
- Support growth in the key sectors of the economy;
- Sustain and enhance critical services of health, education and public order and safety; and
- Mitigate the effects of the Economic Recovery Programme on the vulnerable in society.

Economic Performance

Gross Domestic Product

Over the last decade, Zambia sustained a favourable rate of economic growth which averaged at 7.4% between 2005 and 2014. However, economic growth slowed down to around 3% in 2015 and is currently projected to be just above 3% for 2016.



Source: IMF, PwC Analysis

This slowdown in growth is on account of both external and domestic challenges as well as an unbalanced policy mix as noted by the International Monetary Fund ("IMF") in its recent reports on Zambia.

The domestic challenges experienced include:

- The power crisis (electricity rationing) which continued in 2016 due to low water levels at core generation facilities, coupled with high inflation led to increased cost of production for the private sector;
- Policy reversals that adversely impacted business planning in the mining sector; and
- Poor fiscal performance characterised by revenue shortfalls and spending overruns on fuel and electricity subsidies which has put severe pressure on monetary policy.

Externally, the value of Zambia's main foreign exchange earner, Copper, remained subdued over the year as did

"Zambia Plus" programme to ensure sustained and inclusive growth.

overall global economic activity when compared to 2015.
The country's trade deficit has also widened over the year on account of reduced exports earnings from the mining sector.

In September 2016, Zambia's trade deficit widened to K998.8m, representing an increase of 41.6% from K705.2m recorded in August 2016. This has ultimately put pressure on the country's international reserves that have declined from US$3.9bn in July 2015 to US$2.3bn in October 2016.

In order to unlock faster growth and restore economic stability, Government has embarked on a home grown economic recovery programme which will involve shifting from an expansionary fiscal stance to more sustainable public finances in order to be able to improve the country's ability to respond to external challenges. This economic recovery programme has aptly been named "*Zambia Plus*" which entails that solutions will be determined by Zambia and complimented by external support from Cooperating partners. In this light, the government plans to engage with the IMF in early 2017 around possible financing programmes.

In summary, the economic recovery programme has the following five pillars:

1. *First pillar* – Enhancing domestic resource mobilisation and refocusing of public spending on core public sector mandates;
2. *Second pillar* – Scaling-up Government's social protection programmes to shield the most vulnerable in society from negative effects of the programme;
3. *Third pillar* – Improving economic and fiscal governance by raising the levels of accountability and transparency in the allocation and use of public finances;
4. *Forth pillar* – Restoring credibility of the budget by minimising unplanned expenditures and halting the accumulation of arrears; and
5. *Fifth pillar* – Ensuring greater economic stability, growth and job creation through policy consistency to raise confidence for sustained private sector investment.

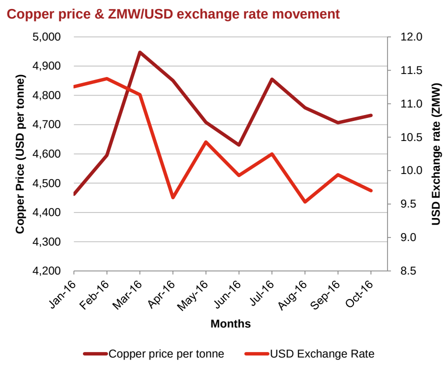
Exchange Rate

The Zambian Kwacha ("ZMW") remained relatively stable with gradual appreciation across the year from K11.25/US$ in January to K9.7/US$ in October. This stability in the exchange rate has provided much needed cost predictability for the local market.

The Minister of Finance, in his "*State of the Economy*" address to parliament in October this year, alluded to the fact that much-needed foreign exchange has been utilised on subsidies. As a result, the Minister proposes the phased removal of electricity subsidies across 2017.

The Economy

PwC analysis and outlook



Source: Bank of Zambia, LME, PwC Analysis

The need to diversify the economy and grow non-traditional exports continues to be pertinent. The analysis above clearly shows the strong correlation between the Kwacha and the price of Copper given that mining accounts for 80% of the Country's foreign exchange earnings. This has had a negative impact on the overall economy as evidenced by the volatility experienced over the last 2 years.

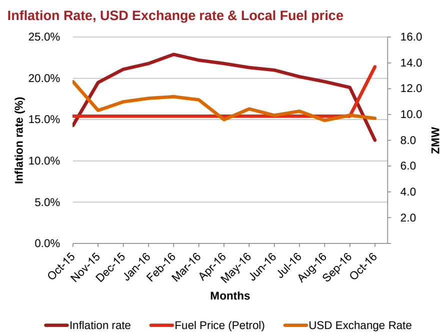
The government has noted that the Bank of Zambia will continue to support the operations of the foreign exchange market by smoothening short term volatility.

Inflation

In the last quarter of 2015, the annual inflation rate crossed the single digit barrier and increased from 7.7% in September 2015 to 14.3% in October 2015 and continued to rise, reaching a high of 22.9% in February 2016. This was driven by the effects of the severe depreciation of the Kwacha against the US Dollar in the third quarter of 2015. There was also a temporal upward adjustment to electricity tariffs, which was effected in December 2015 before the decision was reversed in January 2016.

In the second quarter of 2016, annual inflation began to decline on account of the relative stability in the exchange rate but was partially offset by higher production costs induced by power rationing, declines in food supply and hikes in taxes and customs duties.

In October 2016, the annual inflation rate significantly declined to 12.5% from 21.8% recorded in January 2016. The Central Statistical Office ("CSO") attributed this reduction to the full impact of the base effect, which has resulted in the decrease of both food and non-food inflation. However, the decline in annual inflation does not indicate a fall in actual prices but rather a decrease in the rate of increase in prices.



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

Ironically, the significant decline in annual inflation occurred in the same month in which local fuel pump prices were increased by an average of 32%. The upward revision in petroleum pump prices by the Energy Regulation

Board ("ERB") was in line with the policy decision of 2014 to remove fuel subsidies as well as the current policy direction to migrate to cost reflective pricing of energy services and products.

The decline in inflation in October 2016 was also in line with the Central Bank's forecasts of a sharp decline in annual inflation in the fourth quarter of 2016 toward single digit levels. However, it remains to be seen whether the country will indeed re-attain a single digit inflation rate by year end and if it does, how long it is able to sustain this given the recent increase in petroleum pump prices as well as the possible increase in the near future of electricity tariffs, which are currently not cost-reflective.

Domestic and International Borrowing

At the end of September 2016, the stock of the government's external debt increased to US$ 6.7 billion from US$ 6.3 billion at the end of August 2015 which showed significant slowdown in debt contraction as was planned in the 2016 budget address.

The country's domestic debt in the form of Government securities is K26.0 billion, representing 12% of GDP.

The cash deficit on the 2016 Budget is expected to close around 3% of GDP. The Government expressed that this is largely due to revenue shortfalls and planned external financing not coming through. The deficit on a commitment basis will be around 10% of GDP largely on account of arrears arising from unplanned expenditures related to fuel and electricity subsidies.

To mitigate the effects of the deficit and borrowings, in 2017, the Government proposes to do the following:

- Achieve real GDP growth of at least 3.4%;
- Attain end year inflation of not more than 9%;
- Attain domestic revenue mobilisation of at least 18% of GDP;
- Limit the overall fiscal deficit to no more than 7% of GDP on a cash basis;
- Maintain domestic borrowing to no more than 2% of GDP;
- Build up foreign reserves to at least 3 months of import cover by the end of 2017; and
- Support the creation of at least 100,000 decent jobs.

In addition to other measures, the Government also aims to restrict new capital projects until all on-going projects are completed, as well as implement the phased removal of electricity subsidies in order to reduce pressure on public finances.

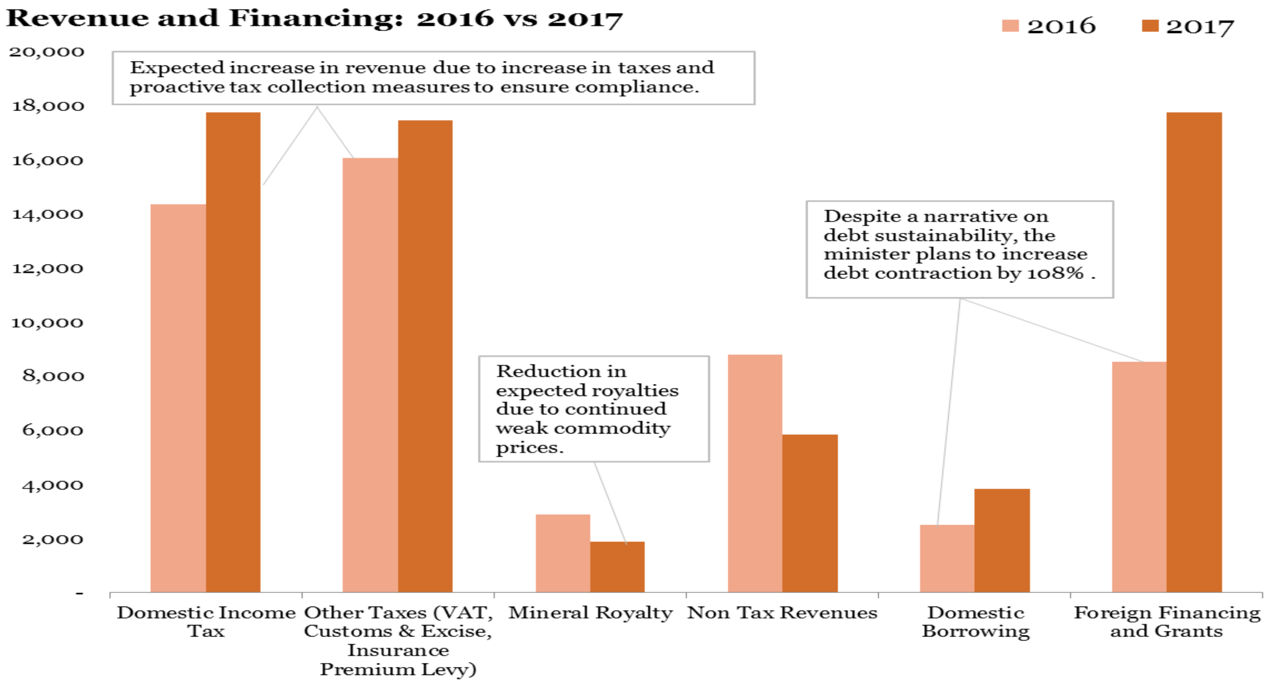
Interest Rates

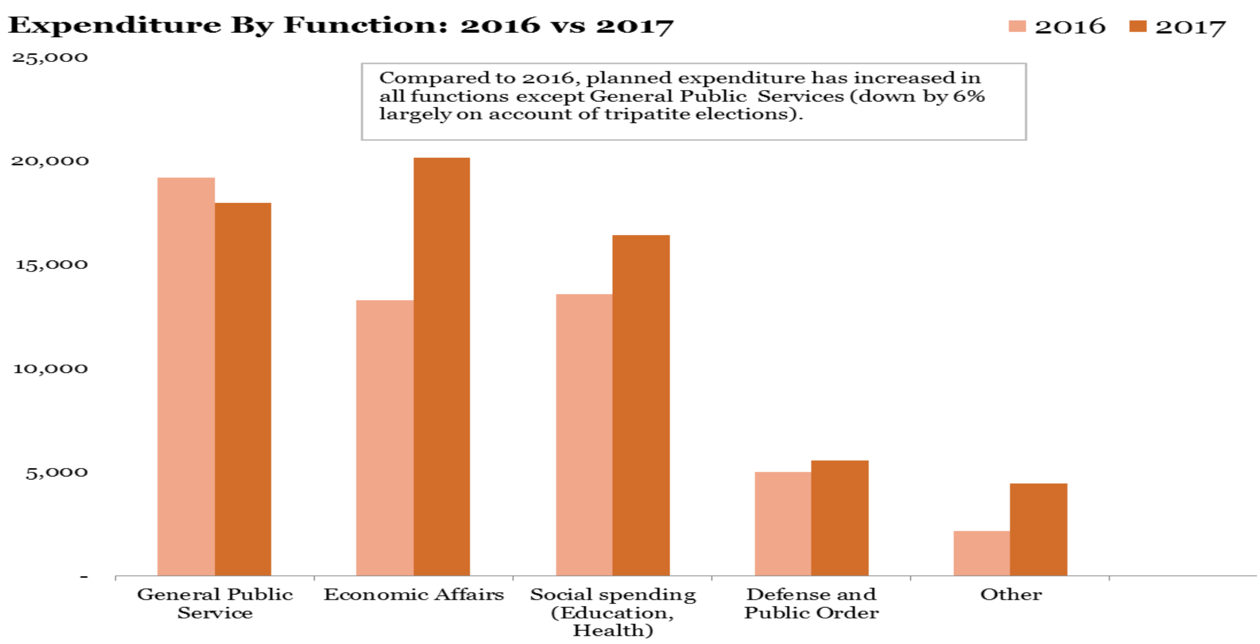
In November 2015, the Bank of Zambia's Monetary Policy Committee ("MPC") decided to tighten monetary policy by raising the policy rate from 12.5% to 15.5% in a bid to contain inflation which had increased to double digit. The MPC further decided to lift the caps on lending rates in order to allow for better functioning of the credit market. These two measures ultimately resulted in commercial banks' nominal interest rates trending upwards – the average lending rate for Commercial banks rose to 23.9% in December 2015 from 20.6% in June 2015.

In 2016, liquidity conditions also remained tight from the first quarter of 2016 due to monetary policy measures implemented in the fourth quarter of 2015. This was reflected in high market interest rates – lending for Commercial banks' ranged from 15.5% to 41%.

The tighter liquidity and higher borrowing costs experienced in 2016 have dampened growth prospects for the year. The Minister of Finance in his "State of the Economy" address to parliament in October this year acknowledged that monetary policy would not have needed to be so tight if the fiscal policy (expenditure) had been less expansionary.

In order to partially mitigate the high lending rates and also as part of the economic recovery programme, Government is putting in place measures for Small and Medium Enterprises ("SMEs") to have access to cheaper financing– to this effect, Government has accessed a US$50m facility with the African Development Bank to be used for lending to SMEs. In addition, the Industrial Development Corporation of South Africa recently signed a US$20m line of credit with the Development Bank of Zambia which will be used to support local SMEs.


Revenue and Financing: 2016 vs 2017
2016
2017
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
-
Expected increase in revenue due to increase in taxes and proactive tax collection measures to ensure compliance.
Reduction in expected royalties due to continued weak commodity prices.
Despite a narrative on debt sustainability, the minister plans to increase debt contraction by 108% .
Domestic Income Tax
Other Taxes (VAT, Customs & Excise, Insurance Premium Levy)
Mineral Royalty
Non Tax Revenues
Domestic Borrowing
Foreign Financing and Grants


Expenditure By Function: 2016 vs 2017
2016
2017
25,000
20,000
15,000
10,000
5,000
-
Compared to 2016, planned expenditure has increased in all functions except General Public Services (down by 6% largely on account of tripatite elections).
General Public Service
Economic Affairs
Social spending (Education, Health)
Defense and Public Order
Other

Increase in harvested maize tonnage in 2015/2016 season by 35% from 2.6 million metric tonnes in prior season to 3.5 million metric tonnes.

Government to refrain from export bans in the 2016/2017 season to facilitate stability and predictable access to wider markets.

Agriculture

To ensure greater economic stability and growth, the Government plans to develop a sustainable, diversified and competitive agriculture sector. In order to attain this, the Government has allocated K3.8 billion to agriculture representing 124% increase from K1.7 billion in the prior year.

The performance of the agriculture sector during the 2015/2016 farming season was favourable on account of improved rainfall in the last half of the rain season, reversing an earlier warning that the country may need to import the staple food amid an El Nino-induced drought. During the 2015/2016 farming season, the country recorded a 35% increase in harvested maize from 2.6 million metric tonnes in the prior season to 3.5 million metric tonnes.

In the 2016/2017 season, the Government will promote diversification to cash crops such as cotton, cashew nuts, soya beans, cassava and rice. This will be done through the full migration to the E-Voucher System.

The Government has launched the Cashew Nut Infrastructure Support Programme valued at US$ 55.4 million. The project will target 600,000 beneficiaries in Western Province. Further, the Government will create a Fund under the Emergent Farmer Support Programme which will support 1,000 emergent farmers. US$ 40 million has been secured to this cause.

To enhance agricultural productivity, a total of K2.9 million has been allocated to Farmer Input Support Programme (FISP) targeting one million small scale farmers.

To mitigate the effects of climate change, the Government will continue with the construction of multipurpose dams and promotion of irrigation schemes. Up to 20 irrigation schemes will be set up while scaling up the sustainable utilisation of wetlands.

The Government will also refrain from export bans, to facilitate stability and predictable access to wider markets.

In the livestock sector, Government will continue with the construction of 18 artificial insemination centres. Further, to control animal disease, Government will scale up production of vaccines at the Central Veterinary Institute.

The Government will also complete the construction of the cordon line from Shangombo to Jimbe to prevent transboundary disease transmission.

In respect of fisheries, the Government will complete the construction of fingerling centres in Rufunsa, Mungwi, Kasempa and Chipepo.

Manufacturing and International trade

Industrialisation as a means of diversifying the economy

In line with the theme of inclusive growth and development, Government will promote industrialisation as a means of diversifying the economy through facilitating value addition in the trade and manufacturing sectors.

Government will facilitate the development of the Kafue Iron and Steel, the Kalumbila Multi Facility and the Lusaka South-Multi Facility Economic Zone. The implementation of MFEZs in Zambia is designed to make Zambia competitive through increased activity in the trade and manufacturing sectors, which have numerous positive spill over effects in other sectors such as agriculture, transport, utilities and services.

To achieve macroeconomic objective of creation of decent jobs, Government will further develop financing instruments that will attract pension funds led by the National Pension Funds and other investment companies to support industrialisation under the Industrial Development Corporation (IDC).

Financing of SMEs key to industrialisation

Financing of SMEs is key to industrialisation and to support them to address this, Government has allocated US$50 million for on lending to SMEs. Government will further facilitate access to affordable financing for SMEs through establishment of an Agricultural and Industrial Credit Guarantee Fund with a funding of K20 million. The fund will guarantee loans granted to SMEs thereby facilitating access to financing.

Inclusive growth and development will require prioritisation of international trade, accordingly, the Government will operationalise Bilateral Trade Agreements with the Democratic Republic of Congo and the Peoples Republic of Angola to assist in provision of duty free and quota free market access of goods produced in the countries.

Government will provide for advance ruling on rules of origin for goods originating from countries which Zambia has signed trade agreements; these include SADC and COMESA member states as well as India and China. Obtaining an advance ruling would help the applicant in planning their activities which are liable for payment of Customs, or Central Excise or service tax, well in advance.

Implementation of a single window platform

Government will implement a Single Window platform for various border agencies to enhance trade facilitation, Government will further establish trade centres at the borders of our major non-traditional trading ports beginning with Kasumbalesa, Kipushi and Chirundu.

Mining

As noted by the Minister, the mining sector continues to play a pivotal role in the economy. The sector recorded a positive first half of the year with

International arrivals increase by approximately 4% increase in 2016.

Copper production increasing by 9.6% to 373,377 metric tonnes from 340,529 metric tonnes in the corresponding period in 2015. This was despite continued weak prices on the London Metal Exchange which have largely been kept within the range of US$4,500 - US$5,000 per metric tonne for the period. The increase in copper production was attributed to ramping up of production at Kalumbila mine which offset the fall in production at Mopani, Luanshya and Lubambe mines. The low output at Mopani was due to suspension of mining activities to allow for the upgrade and completion of expansion projects while the Luanshya- Baluba operation remains under care and maintenance. Lubambe Mine experienced operational challenges associated with the pumping out of water from its mine area.

While the continued challenges around stability of power supply has impacted operations in the year, it is positive to note that the Government has commenced discussions with the sector to migrate towards cost reflective rates. While this may have an immediate impact on the cost of production, it bodes well for the long term sustainability of the industry.

On another positive note, on 1 July 2016, the mining tax regime was amended to remove variable tax and introduce a sliding scale for mineral royalties which takes account of the prevailing copper price. The Minister's promise to ensure a stable and responsive mining tax regime which has long been a call from the sector and is undoubtedly welcomed.

The Minister's continued emphasis on the need to diversify the mining output base is encouraging and it is hoped that the proposed exploration for oil and gas as well as the geological mapping update are pursued.

The announcement by the Minister of the deferment of input VAT on the import of concentrates will have a positive impact on the cash flow position of a number of mining companies and will help avoid a recurrence of the build-up of input VAT that we have seen in the past few years.

The Ministers' announcement of the introduction of a 7.5% import duty on concentrate will negatively impact the competitiveness of the local smelters. Similarly, the increase of import duties on spares from 5% to 15% will negatively impact the cost of production as ongoing repairs and maintenance are a significant cost of any mining operation.

Tourism

Tourism remains one of the key and challenging sectors, and the Government is committed to boosting the sector's performance and its contribution to the Country's GDP. The Country struggled to turn around the tourism sector mainly due to poor marketing strategies and strong competition from well-established countries. This has been compounded by challenges in domestic travel infrastructure and an underdeveloped accommodation sector.

However, the future looks brighter. The country has performed well in the first nine months of 2016 as the number of international arrivals into Zambia increased from 957,373 to approximately 1 million passengers, representing an increase of approximately 4%. The country is expecting to receive approximately 1.3 million arrivals in 2017. International tourist visits to national parks and bed occupancy increased by 12% and 2% respectively by mid-year 2016.

The Government is working hard to improve road and rail networks across the country and also to establish greater links with potentially lucrative source markets such as China. Access roads (including feeder roads) within game parks will be rehabilitated to lengthen the tourism period. To this effect a total of 144 pre-fabricated bridges will be installed on feeder roads across the country to allow better access.

Economic challenges in Zimbabwe and higher expenses incurred in South Africa will push more and more tourists looking for safari and wildlife watching holidays towards Zambia.

The Government has also committed to implement the Tourism Development Fund as provided for in the Tourism and Hospitality Act. The fund was established to support tourism product development, tourism infrastructure and marketing activities. This fund is intended to enhance the sector's contribution to employment and wealth generation in the country.
The fund will also play a vital role in enhancing the capacity to safeguard the Country's wildlife resources.

The Government will also work with the private sector to come up with an integrated approach to develop the sector. The Government will work on transforming Livingstone into a Premier Conferencing location in Southern Africa to leverage on the infrastructure developments that have been undertaken.

Transport sector

The Government intends to leverage off Zambia's central location and make it a regional transport hub. In order to do this, the Government will continue with the implementation of road infrastructure projects such as the Link Zambia 8000, the Lusaka 400 and the Copperbelt 400.

The National Road Tolling programme has been introduced by the Government. This is expected to increase financing in the road sector. Two toll gates are currently in operation and have brought in revenue of K19 million as of June 2016. Construction of four additional toll gates has commenced.

The Kazungula Bridge, a major project under construction, when completed, is expected to enhance trade in the Southern region. Further, a total of 144 bridges will be installed on feeder roads.

Transport sector budget has increased to K8.6 billion from K6.6 billion. This represents an increase of 30%.

Increased usage of ICT including mobile services and internet.

Planned improvement in transparency and accountability through technological transformation

In addition to the road infrastructure projects, the Government intends to attract equity partners to revamp operations of Zambia Railways Limited and TAZARA. Other railway infrastructure projects will also commence.

In the current budget, K8.6 billion has been allocated to the sector compared to K6.6 billion in the previous budget. This represents an increase of 30%. The current year budget allocation represents 13% of the total budget.

Information and Communication Technology (ICT)

The country has experienced increased usage of ICT including mobile services and internet. In the first 3 quarters of 2016, mobile users increased to 11.5million. The Government has increased duty on airtime from 15% to 17.5%. This may have a negative impact on the growth on mobile and internet usage that the country has experienced in 2016.

Furthermore, under the Smart Zambia Master plan and in line with the Economic Recovery Programme, the Government intends to harmonise the construction of National ICT Infrastructure to address both the low application of ICT in industry and lack of ICT skills across the country.

In the agricultural sector, the Government has planned the following transformations:

- Use of technology in the agriculture sector to ensure stability, growth and appropriate use of resources. All stakeholders and beneficiaries under Farmer Input Support Programme (FISP) will be migrated to the E-Voucher Systems in the 2017 – 2018 farming season.

- Leverage on ICT to improve delivery of vital agricultural extension services to farmers across the nation.

The Government also intends to continue leveraging on ICT to:

- Control expenditure through the expected full implementation of the Integrated Financial Management System (IFMIS) by close of 2017. The rollout of IFMIS will ensure all ministries, provinces and spending agencies do not spend outside the system thus addressing the issue of accumulation of arrears.

- Facilitate timely disbursement and payment of funds by spending agencies by accelerating the implementation of the Treasury Accounting System (TSA).

- Improve revenue collection and reduce leakages via automation of major revenue collection processes by 2017.

- Enhance efficiency in the procurement of goods, works and services through implementation of e-Government procurement systems.

Water and sanitation

Sectoral increase of 38% against 2016 budget allocation

Budget allocation to the water and sanitation sector has increased from K283 million in 2016 to K391 million in 2017 budget. This represents a sectoral increment allocation of 38%.

The 2016 area of focus was water and sanitation infrastructure that included the construction of 944 boreholes and rehabilitation of 400 existing ones.

The major targeted areas for the current budget are Lusaka water and supply, sanitation and drainage, Lusaka sanitation program, Kafue bulk water supply improvement, Kafubu water supply and sanitation program and Mulonga water and sewerage company project.

The Government also intends to continue to procure solid waste equipment and construct engineered landfills to manage waste and the environment.

As per the Ministry of Finance economic report as of June 2016, actual expenditure on water and sanitation was only K78 million against a budget of K283 million. There is a high likelihood the budget line will be underspent by year end. Further 2015 actual against budget on water and sanitation was K218 million against K219 million.

This sector has also received support from a number of partnerships that include African Development Bank, Millennium Challenge and others.

Health Sector

Increase in health budget from K4.431 billion in 2016 to K5.762 billion in 2017

The Government plans to achieve universal health coverage in line with the third Sustainable Development Goal. There has been an increase in the budget from K4.4billion in 2016 to K5.7billion in 2017 representing a 30% increase. The 2017 budget allocation to health as a percentage of total expenditure is 8.9% against 8.3% in 2016.

The focus will be on strengthening health systems with emphasis on primary health care, promoting innovative health financing strategies and rehabilitation of health facilities and training schools.

The Government will continue to prioritise procurement and distribution of drugs as well as medical supplies, medical equipment, infrastructure and human resource development. K769.1 million has been allocated to drugs and medical supplies while K267 million has been allocated to medical equipment and infrastructure.

Plans to recruit 2000 frontline medical personnel

The Government plans to recruit 2000 frontline medical personnel and to complete the ongoing health

The education budget for 2017 has increased by 16%

The Social Cash Transfer Scheme will reach all districts in Zambia for the first time.

The budgetary allocation for Social Protection schemes has increased from 2.4% to 4.2%.

infrastructure work. This will include completion of remaining 350 health posts, upgrading of Levy Mwanawasa Hospital from 120 bed spaces to 850 bed spaces and modernising higher level hospitals.

Government completed the construction of the modern cancer hospital in June 2016 and the plan in 2017 is to establish satellite cancer treatment centres at provincial level to complement the Cancer Disease Hospital in Lusaka.

The Government will table the Social Health Insurance Bill in Parliament during 2017 to facilitate the implementation of the compulsory social health insurance.

Education and Skills Development

The lack of economic diversification in Zambia is believed to be aggravated by a shortage of technical, and professional skills. This has also resulted in citizens being unable to break the cycle of poverty.

In this regard, Government has allocated K10.6 billion to this sector.

In order to facilitate skills acquisition the Government has allocated K233.5 million in 2017 budget to the skills development Fund.

The Government continues to work towards improving quality of education in the country and in 2016 5,699 additional teachers have been recruited, 699 in excess of planned numbers. They continue to work towards improving the pupil-student ratio.

Construction of the Robert Makasa University has been completed with the construction of King Lewanika University in Western Province, Luapula University in Luapula Province and three university colleges in Katete, Nalolo and Solwezi still in progress.

The School Feeding Program has in the past recorded success and funding to this has been maintained at K35.6 million to encourage school attendance amongst the vulnerable in society, families affected by various health pandemics and abject poverty.

The Bursary system has been found to be unsustainable, as such, it will be replaced with a self-sustaining Loan Scheme for university students. K314.9 million has been allocated for Loan Scheme for university students.

Social Protection

Overall expenditure towards social protection has more than doubled to K2.7bn in 2017 from K1.3bn budgeted for in 2016. This is in line with Government policy to undertake specific measures to cushion the likely negative social effects on the most vulnerable in society in the economic recovery plan.

This is a direct benefit of the reallocation of savings from the removal of subsidies being undertaken. The focus for expenditure for the period remains the same as in prior budgets, around pension related payments and social cash transfer.

420 Megawatts were generated through the completion of Maamba Coal Plant and Itezi-tezhi hydro power station in 2016

This includes a 106% increase to K1.7bn for the Public Service Pension Fund and an 83% increase to K552m for the Social Cash Transfer Scheme, now expected to have over 500,000 beneficiaries, double prior year.

All the other existing social schemes have also been maintained although with broader reach across the country. These include the Food Security Pack, Public Welfare Assistance Scheme and the Women's Development Programme, which have all been expanded to assist the vulnerable in society. Youths will also now be targeted in Youth Resettlement Schemes to encourage and enable them to participate in agri-business.

As in previous years, although increased expenditure is targeted to help the vulnerable, actual expenditure is often below budget due to constrained resources. Furthermore, Government may not be able to meet the targeted 28% increase in monthly amounts for the Social Cash Transfer Scheme.

Energy

Energy diversification agenda is in progress, with focus on solar, nuclear bio-mass e.tc

The country continues to experience a power deficit of 690 Megawatts caused by poor rainfall. 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.

In 2016, Government commissioned the coal-fired power station at Maamba collieries and the Itezhi-tezhi hydro power station. The 2 projects have contributed an extra 420 Megawatts to the national grid.

The long term measures being taken by Government to cover the deficit include increasing the electricity generation capacity and also moving to a better energy mix. Government is rehabilitating old power stations to improve electricity generation capacity. This has seen the upgrading of the Kafue Gorge power station from producing 650 to 990 Megawatts and the Kalungwishi Power project which will bring an additional 247 Megawatts among others.

The Government has continued to be committed to the partnership 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 by 2019 at an estimated cost of 4 billion US dollars. Government is also working with the private sector to expand power generation at the Kafue Lower hydro plant which upon completion in 2018 will generate 750 Megawatts of electricity, and also EMCO Zambia Coal fired Plant which upon completion in 2019 would add 300 Megawatts to the National Grid.

The Economy

PwC analysis and outlook

Government will review performance of ZESCO, TAZAMA and INDENI and unbundle non-performing SOEs to improve efficiency.

Government will dis- engage from procurement of petroleum products, effective 1 March 2017.

Upward adjustments of cost reflective tariffs by end of 2017 to attract private sector investment

To support the expected increased electricity production, Government is planning to engage with private sector to increase capacity of the Electricity National Grid and also Off-Grid electricity access, with the Maamba Coal Power National Grid electricity uptake successfully implemented in November 2016.

In line with the diversification agenda and also risk posed by climate change, Government has continued to actively pursue alternative sources of energy such as Solar, Nuclear Power, bio-mass, geothermal and wind. The Government through the Industrial Development Corporation is implementing a solar-based renewable energy programme to address the current power deficit. This solar project will add 100 Megawatts to the National grid, with a further 150 Megawatts planned for second phase.

With the aim of attracting private sector investment, Government intends to adjust electricity tariffs upwards towards cost reflective tariffs by end of 2017, while maintaining lower "life line" tariff scheme to protect households. Government has already commenced discussions with mining houses and other bulk power consumers to start migrating towards cost reflective tariffs in 2017.

Government will also make input VAT on Petrol Non Claimable and limit the claimable threshold on diesel to 90%.

In order to improve service delivery and efficiency, Government through the Industrial Development Corporation (IDC), will conduct a situational analysis of its State Owned Enterprises (SOEs) which include energy firms such as ZESCO, INDENI and TAZAMA pipeline, with the view of recapitalising well performing SOEs and hiving off those that are not viable.

Lastly, effective 1 March 2017, Government will regulate its petroleum sector involvement to accommodate the Private sector, by dis-engaging from the procurement of finished petroleum products.

In the short to medium term, the move to cost reflective energy tariffs and removal of claimable input VAT on petrol and diesel will result in an increase in the cost of energy for businesses.

The proposed focus to improve efficiency on procurement of finished petroleum products is likely to cushion the fuel price increase and eventually lower the price.

Top marginal tax rate increased to 37.5% from 35%

Tax free band increased by 10%

Increase in employer and employee contributions

Induction of 0.5% skills development Levy

Pay As You Earn

2017		2016	
Income	**Tax rate**	**Income**	**Tax rate**
First K39,600	0%	First K36,000	0%
From K39,601 to K49,200	25%	From K36, 001 to K45, 600	25%
From K49,201 to K74,400	30%	From K45, 601 to K70, 800	30%
From K74,401	37.50%	From K70, 801	35%

Changes in the tax free band/ increase in top marginal tax rate

The annual tax exempt threshold for income has increased by 10% from K36,000 to K39,600. There is no change in the intermediate tax bands. However, the top rate of tax has increased from 35% to 37.5%.

The government is targeting inflation to fall from the current 12.5% to 9%. The proposed increase in the tax exempt threshold will have little impact on spending power for taxpayers. However, high income earners face a greater tax burden.

This measure should increase government revenues from PAYE.

Other Levies and Employment costs

Introduction of Skills Development Levy

The Minister proposes to introduce a skills development levy of 0.5% of total emoluments paid by an employer. The purpose of the levy is to build a fund to develop and improve the skills of employees that are pertinent to industry requirements.

Pension Reforms

As part of the Pension reform programme the Minister proposes to allow new entrants into public pension schemes, facilitate private sector management of the funds and increase employer and employee contributions.

It is not clear whether this proposal seeks to reform the existing National Pension Scheme Authority (NAPSA) system and increase NAPSA contributions or whether a new scheme is being proposed. Whilst this may better protect pensioners, this will increase the cost of employment.

The increase in marginal rate of PAYE, introduction of skills development and pension reforms will ultimately all lead to an increase in the cost of employment. This may have a negative impact on job creation and employment.

Statutory bodies to pay 10% tax on rental income

Withholding Taxes

The Minister proposes that all statutory bodies which are currently exempt from income tax should pay tax on rental income at the rate of 10%.

This measure is intended to increase tax revenues and should go some way towards levelling the playing field between commercial state owned enterprises and private sector businesses.

Effective date

All of the above measures will take effect from 1 January 2017.

Increase in various user fees and charges

Introduction of fees on all motor vehicles exiting and entering Zambia's borders

Other Non-Tax Measures

Introduction of fees on all motor vehicles exiting and entering Zambia

The Minister proposes to introduce fees on all motor vehicles exiting and entering Zambia's borders as follows:

Motor Vehicle Description	Prescribed fee (US$) or Kwacha Equivalent
Trucks with abnormal loads laden or empty	75
Commercial truck laden or empty	60
Passenger buses	40
Passenger vehicles	20

This measure will effectively increase transportation costs for both businesses and individuals.

As a landlocked country which is primarily reliant on road transport, this will have major cost repercussions for all industry sectors and increase the cost of doing business, making Zambia less competitive.

Increase in various user fees and charges

The Minister proposes to increase various user fees and charges to recover costs. This would include statutory fees and charges for services provided by government institutions.

Unless the fee increases are matched by an increase in efficiency, this measure will have an overall detrimental effect.

Effective date

All of the above measures will take effect from 1 January 2017.

Direct Taxes

Main Corporate Income Tax rate remains 35%

Advance Income Tax increased to 15%

Rate of Capital allowances for farming and agro-processing increased to 100%

Corporate Income Tax

The Corporate Income Tax rate remains unchanged at 35% for most businesses.

Capital allowances for farming and agro-processing sector increased to 100%

To promote agriculture as part of the economic diversification plan and increase capital investment in the sector, the Minister proposes to increase capital allowances for implements, plants and machinery used in farming and agro-processing to 100%. The current rate of capital allowance applicable is 50%.

Currently, the agriculture and agro-processing sectors already benefit from a number of incentives that are not available to other industry sectors. These include a reduced corporate income tax rate of 10%; a 100% farm improvement and farm works allowance.

Accelerating the rate of capital allowances from 50% to 100% may not necessarily benefit all farming / agro-processing businesses. In particular farming/agro-processing entities that that are operating at a loss and which cannot utilize their losses within five years could be worse off. A more effective incentive would include an option for farming businesses to determine the rate at which they could claim capital allowances themselves.

Advance Income Tax

The Minister proposes to increase the rate of Advance Income Tax (AIT) from 6% to 15% payable on importation of goods by importers that are not registered for taxes and/or who do not have a tax clearance certificate.

Currently, in order to avoid payment of AIT an importer importing goods is required to demonstrate that he/she is tax complaint. If they are unable to demonstrate this, then they will be liable to pay AIT at 6%. This can be offset against their final income tax liability.

The proposed measure is aimed at widening the tax net and improving compliance.

Tax clearance certificates for change in motor vehicle ownership

A Tax Clearance Certificate will now be required when changing motor vehicle ownership. Currently, ownership can be changed without obtaining a Tax Clearance Certificate from the Zambia Revenue Authority. This measure is intended to broaden the tax base.

Turnover Tax

The Minister proposes to restructure turnover tax by introducing bands and presumptive amounts. Currently turnover tax of 3% is applicable for businesses with an annual turnover of less than K800,000. This excludes passive income and income earned from consultancy services, property rental, mining and VAT registered businesses.

This measure increases the effective tax rate for businesses with a higher turnover thereby making it more progressive.

In addition, the above measure is intended to enhance domestic revenue collections.

Monthly Turnover Category	Proposed regime
K1 - K4,200.00	K100 per month +3% of monthly turnover above K3,000
K4,200.01 - K8,300.00	K225 per month +3% of monthly turnover above K4,200
K8,300.01 - K12,500.00	K400 per month +3% of monthly turnover above K8,300
K12,500.01 - K16,500.00	K575 per month +3% of monthly turnover above K12,500
K1 6,500.01- K20,800.00	K800 per month +3% of monthly turnover above K16,500
Above K20,800.00	K1,025 per month +3% of monthly turnover above K20,800

The impact of the above changes are summarised below.

Monthly Turnover Category K'	Amount of tax payable (proposed regime) K'	Amount of tax payable (Previous regime) K'	Effective tax rates (proposed regime) K'
K1 - K4,200.00	136.00	126	3.24
K4,200.01 - K8,300.00	348.00	249	4.19
K8,300.01 - K12,500.00	526.00	375	4.21
K12,500.01 - K16,500.00	695.00	495	4.21
K1 6,500.01- K20,800.00	929.00	624	4.47
Above K20,800.00 -Assuming K30,000	1,301.00	900	4.34

Housekeeping measures

The following housekeeping measures are to be introduced:

Introduction of penalties for late submission of turnover tax.

A late submission penalty of K150 has been introduced on the late submission of a turnover tax return.

Previously the Income Tax Act did not provide a specific penalty for payers of turnover tax. In practice payers of turnover tax would pay the same general penalties of K300 and K600 per month applicable for late submission of personal income tax and company income tax returns, respectively.

Mandatory Tax Payer Identification Numbers for bank account holders

It will now be mandatory for financial institutions registered under the Banking and Financial Services Act to require bank account holders to obtain a Tax Payer Identification Number.

This measure is intended to assist the Zambia Revenue Authority with the identification of undeclared income. This should also strengthen compliance and broaden the tax base.

Revised due dates for filing of returns and making payments

It is proposed that the due date for filing of the returns is amended as follows:

- For provisional income tax from 14^{th} to 10^{th} of the month following end of every quarter.
- From 30^{th} June to 21^{st} June for submission of the final income tax return and payment of the balance of tax.

The proposed measure is intended to ensure that taxes are paid into the treasury timely. In addition, this measure will ensure that the Zambia Revenue Authority follows up any outstanding tax liabilities within the month.

Effective date

The above measures will take effect from 1 January 2017.

Development of additional Multi Facility Economic Zones

With a view to diversifying the economy through industrialisation and local value addition, the government aims to facilitate the development of the Kafue Iron and Steel Multi Facility Economic Zone and Kalumbila Multi Facility Economic Zone.
The aim is to encourage the setup of diversified industry within these locations.

Fiscal Incentives to be offered to aquaculture sector

In further driving the economic diversification agenda, the Minister of Finance has proposed to offer fiscal incentives to the aquaculture subsector.

This measure should encourage the participation of the private sector in the establishment of fish plants and other aquaculture activities.

Indirect Taxes

VAT

Input VAT reclaim period

Input VAT reclaim period reduced to three months from date of invoice

It is proposed that the validity period of supporting documentation and to reclaim input VAT is reduced from six to three months.

This suggests that purchase invoices and supporting documentation dated three months prior to the claim will be rejected.

Businesses will therefore need to ensure that their tax system captures all purchases invoices and supporting documents on a timely basis to minimize tax losses.

The measure is likely to enhance VAT collection for ZRA.

Restrictions on Input VAT claims

Input VAT not claimable on purchases made prior to VAT registration

The Minister proposes to restrict the claim for input VAT for purchases made prior to VAT registration. Businesses will no longer be able to claim input VAT on purchases made prior to VAT registration.

Currently, businesses can claim input VAT incurred on purchases made up to three months prior to VAT registration.

This measure is designed to encourage business entities to register for taxes as soon as they start operations. This should help broaden the tax base and could result in lower VAT claims on pre-incorporation costs.

Businesses will no longer be able to claim input VAT on petrol and can only claim 90 percent of the total business input VAT on diesel. The only exception is where the petrol or diesel is for resale.

Currently, 20 percent of the tax charged on the supply of petrol may be claimed as input VAT and there is no threshold on input VAT claims on diesel.

This measure will significantly affect transport and freight companies and other key industry sectors.

Additionally, this will intensify the impact of the current power crisis for businesses which have had to alternate their power source from direct electricity supplies to electricity generated from diesel powered generators.

The Minister proposes to make input VAT on domestic refrigeration equipment, air conditioners, mobile phones, motor vehicle parts, digital satellites, television sets, decoders, video players, curtains and construction of dwelling houses for staff, non-claimable.

These are mainly high end consumer products, however, some businesses may be affected.

Where these products are meant for resale or are a main input in the

VAT group registration scheme abolished

business, then input VAT can be claimed.

The government is yet to confirm what will qualify as a main input for businesses.

Input VAT refund claim period extended for exploration companies

The period for which exploration companies can claim input VAT refunds has been extended from 7 years to 10 years.

This measure should encourage exploration and is intended to align the period within which a firm carrying on exploration can claim input VAT refunds with the maximum period for which an exploration licence is valid.

Inclusion of copper concentrates on import VAT deferment schedule

Copper concentrates will be included on the import VAT deferment schedule.

This will exempt importers from the requirement to pay import VAT on copper concentrates and consequently there should be no input VAT claim.

This is intended to provide cash flow relief to the mining sector.

Removal of VAT group registration provisions

The Minister proposes to abolish the VAT Group registration scheme.

Currently, a group of companies incorporated in Zambia and with common control, may, subject to ZRA approval, apply for a single VAT registration. Where group VAT registration is granted, the provision of goods or services by a member of a group of companies to another member in the group is currently not subject to VAT. Following the change, supplies from one group member to another will be subject to VAT.

From the Government perspective, this measure is intended to enhance the credibility of risk based tax audits.

From the business perspective the proposed measure will result in a cashflow disadvantage. This is likely to affect working capital and increase the cost of financing operations. This will also increase the administrative burden of VAT compliance for group companies.

Transportation services exemption

The definition of "Transportation Services" in the Exemption Order is clarified to exclude supplies of a sporting or leisure character.

The heading of the relevant group in the Exemption Order is being changed to "Transportation of Persons."

It appears that this proposal aims to tax transport services which are subsidiary to or coincidental to sporting and leisure activities.

Fish seed and fish feed exemption

It is clarified that the supply of fish seed and fish feed are exempt for VAT purposes.

This means that there will be no requirement to charge VAT on fish feed and fish seed.

Monthly returns and payments for oil marketing companies

Oil marketing companies may now submit three VAT returns for fuel uplifts each month.

The measure is intended to align the provisions of the VAT legislation to those in the Customs and Excise (General) Regulations which require oil marketing companies to account for import duty three times a month.

This should ease cashflow for oil marketing companies as in addition to paying VAT three times a month, they will also be entitled to reclaim input VAT three times a month.

VAT deadline revised

VAT monthly deadline revised

The monthly deadline for filing of the VAT return and making payment has changed from the 21st to the 16th of every month.

Other measures

Mandatory use of Electronic Fiscal Device

To ensure compliance, the Minister proposed that it will be mandatory for VAT registered suppliers to use Electronic Fiscal Devices.

These devices are likely to replace cash registers and are likely to be interfaced with the TaxOnline System. Retailers and distributors are likely to be affected the most by this measure.

The measure will enable real time monitoring of business transactions and will assist with ascertaining the credibility of VAT refund claims.

This should help broaden the tax base and minimise revenue leakage for the Government.

Government has noted that VAT charged by some suppliers is not remitted to ZRA. To tackle this, Government will appoint some companies and Government agencies to serve as tax agents, to collect the tax at source.

Withholding of VAT introduced in certain industry sectors

Companies in certain industry sectors will be required to withhold the VAT charged to them by suppliers on their purchases and remit this directly to the ZRA. This measure is intended to safeguard government revenues.

Effective date

All of the above measures will take effect on 1 January 2017.

Customs and Excise

Air time

The Minister proposes an increase in excise duty on air time from 15% to 17.5%.This is the second increase in two years.

Airtime includes minutes of voice calls, short message service (sms), multi-media services (mms), internet band width and other similar services that a subscriber consumes on a mobile cellular telephone or other electronic communication device.

The measure is intended to raise additional tax revenues.

This will however increase communication costs for both individuals and businesses alike and is contrary to Governments vision to

"…increase coverage, access and efficiency in the provision of Information and Communications Technology and meteorological services in order to contribute to sustainable national economic growth…" as expressed in the Sixth National Development Plan.

Spare parts

The Minister proposes an increase in customs duty on importation of spare parts for various machinery and equipment from 5% to 15%.

The main aim of this measure is to increase Government revenue.

However, this is likely to increase cost of doing business.

Copper concentrates

The Minister proposes to impose import duty at 7.5% on importation of copper concentrates.

The measure is aimed at increasing revenue collection for the Government.

This measure assumes that there are sufficient/ suitable local concentrates available to fully utilise the existing processing capacity.

If the resulting increase in costs cannot be passed on to the customers, this measure may deter mining companies from importing copper concentrate for further processing.

The measure also appears to contradict Governments objective of encouraging local value addition.

Introduction of export duty of 10% on exportation of maize

In order to improve stability and access to wider markets in the agricultural sector government has indicated that it will refrain from direct intervention on export and pricing policy. Instead this will be influenced by tax policy.

The export of maize will be subject to an export duty of 10%.

Semi-processed edible oils

The Minster proposes an increase in customs duty on semi-processed edible oils from 5% to 25%.

The measure is aimed at increasing revenue collection for the Government.

Aquaculture implements

The Minister proposes a suspension of customs duty on aquaculture implements for a period of three years.

The aim is to drive economic diversification and boost local fish production.

Fittings used in irrigation

The Minister proposes the removal of 25% customs duty on articles of plastics, tubes, pipes, hoses and fittings used in irrigation.

This measure should assist to mitigate the effects of climate change in this sector.

Shoe industry

The Minister proposes to remove customs duty on steel midsole plates, steel toe caps with rubber, caps and rivets, unit shoe sole, vamp lining, non-woven and counter materials used in shoe industry.

The Minister further proposes a reduction of the customs duty from 15% to 0% on pulley tackle and hoists, other skip hoists, winches and capstans, jacks and other lifting, handling, loading or loading machinery.

These measures are aimed at encouraging investment in the shoe manufacturing, mining and construction industries. This should help promote Governments industrialisation program.

Acrylic or modacrylic synthetic staple fibres

The Minister proposes a reduction in customs duty from 5% to 0% on Acrylic or modacrylic synthetic staple fibres.

Acrylic fibres are generally used in the textile industry as well as linings in boots and gloves.

Modacrylic fibres are similar to acrylic fibres, however, these fibres generally have fire retardant properties.

The change is aimed at promoting the growth of industries that use these fibres in their production process.

Plastic bags

The Ministers proposes an increment in customs duty applicable on importation of plastic shopping bags from 25% to 40%.

This move should improve efforts made to reduce environmental damage and encourage use of local products.

Timber products

The Minister proposes the introduction of export duty on timber products as follows:

- K10/kg or 40% of the export value (whichever is greater) of unprocessed timber; and
- K5/kg or 20% of the export value (whichever is greater) of semi processed timber.

The move is aimed at encouraging local value addition in Zambia.

Cigarettes

The Minister proposes an increment in specific excise duty on cigarettes from K200 to K240 per 1,000 sticks and remove ad-valorem rate of 145%.

The measure is aimed at inducing a reduction is the consumption of cigarettes in line with the WHO Framework Convention for Tobacco Control ("WHO FCTC").

Opaque beer

The Minister proposes the modification of the excise duty collected on opaque beer to include presumptive rates.

This is aimed at improving the administration of excise duty on opaque beer in respect of manufacturers who have an annual turnover of less than K800,000.

This should widen the tax base by brining small scale brewers into the tax net.

Sausage casings

The Minister proposes a reduction in customs duty from 25% to 5% on importation of sausage casings made from plastic and edible collagen.

The measure is intended to promote agro-processing.

Increase in Motor Vehicles Carbon Tax rates

The Minister proposes an increase in carbon tax rates as follows:

Engine capacity	Current rates	Proposed rate
CC	**K**	**K**
Motor vehicles	50	70
<1500	50	70
1501-2000	100	140
2001-3000	150	200
>3001	200	275

This measure is meant to adjust the carbon tax rates for inflation.

Introduction of Surtax on imports

The Minister proposes the introduction of surtax at 5% on selected imported goods which are also locally produced. Information is yet to be provided on the affected goods.

This proposed change is intended to promote and protect local production whilst safeguarding Government revenue on importation of selected goods.

Goods in transit

The Minister proposes to move the commencement date of the 5 day transit period from the date of entry to the date of release of goods from customs control.

This measure will ensure the transporter is not affected due to delays at the port of entry

Advance Ruling on origin of Goods

The Minister also proposes to provide for advance ruling on origin of goods from countries with which Zambia has signed trade agreements prior to importation of the goods into Zambia.

This measure intends to align the Customs legislation to Article 3 of the Trade Facilitation Agreement under the World Trade Organisation, to which Zambia is a party.

Under the Trade Facilitation Agreement, each Member is required to issue an advance ruling of the rate of duty and any duty concessions that will be applicable on importation

Effective date

All of the above measures will take effect on 1 January 2017.

Housekeeping measures

Update the Harmonised Commodity Description and Coding System ("HS")

The measure is intended to align goods descriptions with the World Customs Organisation updates of the HS structure that is updated every five years.

Prescribed fee unit

The housekeeping measures propose the removal of the prescribed fee unit payable as a penalty for late clearance of goods on Removal in Bond ("RIB"), provided under the Customs and Excise Act and introduce the penalty under the Customs and Excise (General) Regulation, where all penalties are prescribed.

The measure is intended to move penalty fees on RIBs so that penalties are under the same legislative provisions.

Clarification on the exemption of export duty on goods that are re-exported in their unused state

The proposal is intended to align the Customs Regulations with the provisions of the revised Kyoto Convention.

Custom & Excise

Mandatory electronic applications for licensing Clearing Agents

The measure is intended to streamline the Clearing Agents licensing process and promote use of the ICT platforms implemented for customs administration. The ICT platforms are meant to enhance efficiency in service provision.

Increase minimum penalty provisions

The house keeping measures include an increase in the minimum penalty provisions as follows:

- From K3,000 to K6,000 for failure to avail records for inspection;
- From K300 to K600 per record for failure to provide missing records within the time stipulated in the Act; and
- Increase from K2,400 to K6,000 for offences where there are no special penalties provided for in the Act.

The penalties are meant to encourage compliance and act as a deterrent to non-compliance.

Definition of Currency notes and bearer negotiable instrument

This house keeping measure introduces the definition of the terms "currency note" and "bearer negotiable instrument" in the Customs and Excise Act.

Amend Tariff Codes

Amend Tariff Codes to provide for a separate tariff line for "sections of cathodes" from "Cathodes" and for "Cobalt Mattes" from "Other Intermediates products of cobalt metallurgy; unwrought cobalt; powders".

The measure is intended to ease the monitoring of exports of minerals under the Mineral value Chain Mechanism.

Mining tax regime

Unlike previous years there are few changes to the mining tax regime in the current budget. The few tax changes proposed are unlikely to have material impact on the industry. The key changes are summarised below.

Value Added Tax

Put copper concentrates on the VAT deferment schedule

The Minister has proposed that importation of copper concentrates and ores will qualify for the VAT deferment scheme.
This measure is intended to provide cash flow relief to the mining sector.

Customs and Excise

Introduce import duty on copper concentrates at the rate of 7.5 %

The Minister proposes to introduce import duty on copper concentrates at a rate of 7.5%.

This is intended to increase revenue collection for the Government. However, unless the additional cost can be passed on to the customer this measure may deter companies from importing copper concentrates for further processing. This would be contrary to the Government's policy of encouraging local value addition.

Oil and gas

In order to promote the exploration for oil and gas, Government will undertake mapping of the entire Zambian territory to update the geological database to support future investment in the sector.

Housekeeping measures

The following housekeeping measures have been proposed:

Exchange rate for translation purposes

ZRA prescribes the use of the average Bank of Zambia mid- rate Kwacha/US Dollar rate to translate accounts prepared in foreign currency for mining operations.

Amend Tariff Codes

Amend Tariff Codes to provide for a separate tariff line for "sections of cathodes" from "Cathodes" and for "Cobalt Mattes" from "Other Intermediates products of cobalt metallurgy; unwrought cobalt; powders".

The measure is intended to ease the monitoring of exports of minerals under the Mineral Value Chain Mechanism.

Changes from 1 June 2016 to date

Whilst there are minimal changes proposed in the current budget, there have been some significant changes earlier in the year which are worth mentioning.

Corporate Income Tax

Whilst the corporate income tax rate applicable on **mining operations** was reinstated at 30%, Variable Profits Tax of up to 15% applicable on taxable income exceeding 8% of gross sales was abolished.

Mineral Royalty

In June 2016, the following mineral royalty rates applied:

(a) 5% of the norm value of the base metals produced or recoverable under the licence, except when the base metal is copper;

(b) 5% of the gross value of the energy and industrial minerals produced or recoverable under the licence;

(c) 6% the gross value of the gemstones produced or recoverable under the licence; and

(d) 6% of the norm value of precious metals produced or recoverable under the licence.

Where the base metal produced or recoverable under license is copper the mineral royalty rate payable is:

(a) 4% of the norm value when the norm price of copper is less than USD4, 500 per tonne;

(b) 5% of the norm value, when the norm price of copper is USD4, 500 per tonne or greater but less than USD 6,000 per tonne; and

(c) 6% of the norm value, when the norm price of copper is USD6, 000 per tonne or greater.

Historic mining tax regime changes

Key changes to the mining tax regime prior to June 2016 are summarised below.

1 July 2015 to May 2016

In June 2015, following a significant decline in copper prices which rendered mining operations unprofitable and unsustainable, government 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.
- Utilisation of tax losses limited to 50% of the taxable income earned from mining operations in the year under review.
- 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

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

1 January 2015 to 31 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 cashflow 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.

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 exceeded 8% of gross sales;

Major historic changes with regards to the mining industry

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

	2017	2016
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

	2017	2016
(excludes passive income and income earned from consultancy services, property rental, mining and VAT registered businesses)		Flat rate of 3% on turnover
K1- K4,200.00	K100/ month (a)	
K4,200.01 – K8,300.00	K225/month (b)	
K8,300.01 – K12,500.00	K400/month (c)	
K12,500.01 – K16,500.00	K575/month(d)	
K16,500.01 – K20,800.00	K800/month (e)	
Above K20,800.00	K1,025/month (f)	

(a) *plus additional 3% of monthly turnover > K3,000*
(b) *plus additional 3% of monthly turnover > K4,200*
(c) *plus additional 3% of monthly turnover > K8,300*
(d) *plus additional 3% of monthly turnover > K12,500*
(e) *plus additional 3% of monthly turnover > K16,500*
(f) *plus additional 3% of monthly turnover > K20,800*

	2017	2016
Advanced Income Tax (upon importation of goods in the absence of a valid tax clearance certificate)	15%	6%

Capital deductions***

	2017	2016
Investment allowance on industrial buildings****	10%	10%
Initial allowance on industrial buildings****	10%	10%
Industrial buildings allowance	10%	5%
Commercial buildings allowance	2%	2%
Implements, machinery and plant		
Used for farming and agro-processing	100%	50%
Used for manufacturing, tourism, leasing	50%	50%
Used for electricity power generation	50%	50%

Implements, machinery and plant- Other	25%	25%
Motor vehicles		
Commercial	25%	25%
Non-commercial	20%	20%
Farming		
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	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.

Mining Companies - Income Tax

	2017	**2016 Jun - Dec**	**2016 Jan - Jun**
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*	BR*	BR* + VPR**
(b) Where taxable income does not exceed 8% of gross sales	BR*	BR*	BR*
Mineral Processing	35%	35%	35%
Mineral Royalty Rate			
*On **norm value** of minerals/precious metals **under/without licence**:*			
Base metals including copper	5%	5%	6%/9%***
Precious Metals	6%	6%	6%/9%***

	2017	2016 Jun - Dec	2016 Jan - Jun
*On **gross value** of gemstones/energy minerals **under/without licence**;*			
Energy/Industrial Minerals	5%	5%	6%/9%***
Gemstones	6%	6%	6%/9%***
*On **norm value** of copper **under/without licence**:*			6%/9%***
Norm Price of copper< USD4,500/tonne	4%	4%	6%/9%***
Norm Price of copper> USD4,500/tonne<USD6,000/tonne	5%	5%	6%/9%***
Norm price of copper>6,000/tonne	6%	6%	6%/9***

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.

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%

*** Under mining licence 6% rate applied for underground mines whilst 9% rate applied for open cast mining operations. Flat 9% rate applied for both where there is no mining licence.

Withholding Tax on dividends paid by companies carrying on mining operations

	Resident	Non Resident
Dividend	0%	0%

Income Tax Individuals

2017
Monthly income bands

	Income from K	**Income to K**	**Tax rate %**	**Tax on band (maximum) K**	**Cumulative tax on income (maximum) K**
First	0	3,300.00	0	0	
Next	3,300.01	4,100.00	25	200	200
Next	4,100.01	6,200.00	30	630	830
Over	6,200.00		37.50		

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	5,901		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 are unchanged from 2016.

* 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, 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	16 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)*	**2017**	**2016**
Land (including buildings)	5%	5%
Shares	5%	5%
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	**2017**	**2016**
Charged on Insurance Premiums	3%	3%

Zambia Development Agency

Concessions for Priority Sectors

The following incentives **may be granted** to an investor investing not less than USD500,000 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 2017:

- 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.

Carbon Tax

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

Note:

	2017	**2016**
Engine size < 1,500 cc	K70	K50 p.a.
Engine size > 1,500 cc, < 2,000 cc	K140	K100 p.a.
Engine size > 2,000 cc, <3,000 cc	K200	K150 p.a.
Over 3,000cc	K275	K200 p.a.
Vehicles propelled by non-pollutant energy sources	Nil	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 (2016)**	**Tax Per Vehicle per annum (2017)**
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

2017 Deadlines	Penalty	Interest
Income Tax- Companies ***Provisional tax*** Return deadlines: Original Provisional Tax Return : 5 March 2017 (Manual Submissions) 31 March 2017*** (Electronic Submissions) Revision of Provisional Tax Return: 30 June 2017, 30 September 2017 & 31 December 2017 (where applicable)*** Payment deadlines: Within 10 days following the end of the quarter *Note:* *2/3 of the total tax liability payable by the final quarter* ***Final tax return & payment*** Deadline: 5 June 2018 (Manual Submissions) 21 June 2018 (Electronic Submissions)	Provisional tax: Late filing of return: K600 per month or part month Late payment of tax: 5% per month or part month Underestimation of tax: 25% 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* N/A N/A Late payment: 2% + DR*
Income Tax- Individuals ***Final tax return & payment*** Deadline: 5 June 2018 (Manual Submissions) 21 June 2018 (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*)	Late payment: 2% + DR* N/A

	K51 per month or part month (*for individuals*)	
Payroll (PAYE)		
Filing & payment deadlines: Electronic returns to be filed within 10 days after the end of the month of accrual / payment. Manual returns to be filed within 5 days of after the end of the month.	PAYE late payment of tax: 5% per month or part month PAYE late filing of return: K600 per month or part month	Late payment: 2% + DR* N/A
VAT		
Filing & payment deadlines: 16 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

*** In the ZRA 2017 Budget Overview of Tax Changes the filing date is indicated as having moved from 14th to 10th of the month following the end of each quarter. This requires further clarification as prior to this change the provisional tax return submission deadline was at the end of the first quarter i.e 31 March, with revisions made in subsequent quarters if necessary.

Foreign Exchange Rates Used by the Zambia Revenue Authority – January to November 2016

Period	Currency	Exchange Rate 1st -15th	15th –end
January	GBP	16.2875	15.9677
	USD	10.9850	11.0936
	ZAR	0.7101	0.6718
February	GBP	16.1910	16.4970
	USD	11.2528	11.3514
	ZAR	0.7003	0.7194
March	GBP	15.7944	16.2358
	USD	11.3800	11.3800
	ZAR	0.7055	0.7362
April	GBP	16.0476	12.9872
	USD	11.1900	9.1924
	ZAR	0.7499	0.6338
May	GBP	14.0409	14.4126
	USD	9.5914	9.9833
	ZAR	0.6738	0.6645
June	GBP	15.2808	15.3216
	USD	10.4175	10.8235
	ZAR	0.6638	0.7103

Period	Currency	Exchange Rate 1st -15th	15th –end
July	GBP	13.5528	13.5389
	USD	10.1017	10.1034
	ZAR	0.6791	0.7073
August	GBP	13.5396	13.6130
	USD	10.2590	10.5235
	ZAR	0.7269	0.7832
September	GBP	12.5108	13.1174
	USD	9.5516	9.9308
	ZAR	0.6628	0.6926
October	GBP	12.8470	12.1227
	USD	9.9000	9.9325
	ZAR	0.7128	0.6979

Key:

* GBP – Great British Pound

* USD – United States Dollar

* ZAR – South African Rand

The information on this budget bulletin and tax data card is based on the budget pronouncements of 11 November 2016. 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.

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