Beyond Figures*
2009 Budget

*connectedthinking

PricewaterhouseCoopers

Commentary

Bullish tone despite the big challenges ahead

The tone of the Minister's address is bullish despite the significant challenges that the economy faced in 2008 and still has to grapple with in 2009.

Issues identified

The address however eloquently acknowledges the problems the economy faces. For example the severity of the global financial and economic crisis is mentioned several times. And so is the economy's overdependence on copper sited as the major cause of the local economic problems currently being faced. The fact that the agriculture sector is the biggest employer but has performed poorly in the recent past is made clear. Another poor performer highlighted is the rail sector. The role of Government in creating a conducive and competitive environment for creating wealth is also clearly acknowledged.

Role of Government spelt out and Private sector role encouraged

Encouragingly, the address assigns the private sector a prominent role in the economy. Plans for the public-private partnerships are elaborated upon; the low levels of private sector investment in agriculture is moaned; mining companies are acknowledged as "important partners in the process of national development"; Government pledges to promote private sector investment in new hydropower generation capacity; it is announced that a strategic private partner for Tazara will be sought; the lowering of the international gate way license fees is finally announced; and the government pledges that it will welcome private sector investment in the health and energy sectors.

No real stimulus plan but incentives and concessions in various sectors should stimulate growth

He also announced a number of tax incentives and concessions to boost production in the mining, tourism and manufacturing industries. These measures are not very different from the standard annual budget address measures. Does this mean we do not need a stimulus package or we do not have the means to have one? Although the budget address was very categorical on a number measures to be introduced to attain the government's economic goals, we believe clarifications or elaborations are required in certain areas. High fuel prices are a major component of inflation in this economy and one would therefore expect a long term plan to achieve low fuel prices besides hoping that global prices remain low.

The budget address states that the Bank of Zambia will be expected to safeguard the domestic financial system. What exactly this means is not clear. A number of the budget measures such as the simplifying of the business licensing regime, the public-private partnerships legislation etc are dependent on regulations and legislation yet to be put in place. If there is no set timetable, will they receive the priority they deserve?

It is good that Government recognizes that wasteful expenditure occurs. But again there are no details on how this will be tackled. One of the bottlenecks cited for the poor performance of the agriculture sector is the limited access to credit and with the current economic slowdown this is likely to continue.

The successful implementation of the various measures announced will depend on the recruitment of government officers, particularly extension officers, teachers and medical staff.

Another omission noted is the lack of mention of the pricing mechanism for agricultural produce. This is a key issue in the agriculture

More details

GDP growth and borrowing limit achievable but inflation target big challenge

sector. The Government can put in all the required incentives but if the return is not attractive, it will not attract any investors, both foreign and local.

It is also generally acknowledged that ZESCO's problems go beyond the level of tariffs. Reading the budget speech one is left with the impression that there are no discussions around ZESCO beyond the tariffs.

It was pleasing to note the need for the improvement of the monitoring and evaluation of projects being mentioned. However it appears as if this is in respect of infrastructure projects only. We believe there is a strong case to extend monitoring and evaluation to all aspects of the budget.

The major economic targets of the 2009 budget are a GDP growth of 5%, inflation of 10% and domestic borrowing limited to 1.8% of GDP. The GDP growth of 5% is achievable particularly if the agriculture sector performs.

Inflation has always been difficult to control in this economy. We think this will pose the greatest challenge to Government. The domestic borrowing level is more within the control of Government than the other two targets; these are achievable with the necessary fiscal discipline.

One might conclude that It was inevitable with the recent global financial crisis the resultant impact on commodity prices and downturn in local mining, that the Minister had nothing short of a fine balancing act to perform!

The Economy

Developing countries were showing good signs of growth but the global economic slowdown has hampered those prospects and the recovery period for these countries may be longer

An Overview - 2008

The global economy recorded real GDP growth of 2.5% (4% in 2008), a significant downturn propagated by the global economic slowdown which hit hard the growth prospects of developing countries. Growth in Africa decelerated to 5.1% from the 5.7% recorded in 2007. Prospects for 2009 do not appear to be any rosier with GDP for Africa estimated at 4.1%.

Growth in Africa will suffer from lower commodity prices and a weakening export demand

The contagion effects of the global economic slowdown will spread throughout the Africa region as inflationary pressures continue to dampen consumer spending. Growth will be impacted through lower commodity prices, weakening export demand and decline in investment flows in the region. As a consequence, unemployment will increase and push more workers into the already large informal sector. All this will no doubt diminish the prospects of achieving the Millennium Development Goals (MDGs).

However Economists do cautiously predict that commodity prices will begin to rise in the fourth quarter of 2009 suggesting some growth from thereon.

Inflationary pressures resurface with additional fears that food production will be depressed with farmers struggling to source inputs as fertilizer prices remain high and accessing credit from local banks is difficult

Gross Domestic Product (GDP)

Growth in real Gross Domestic Product (GDP) stood at 5.8 % (2007: 6.3%) against a target of 7%. The main contributors to this growth were Mining and Quarrying, Manufacturing, Wholesale and Trade sectors. The relatively weaker performance in Construction sector and the decline in Agriculture coupled with external shocks from the global economy were some of the major reasons for the downturn in the growth of real GDP.

More recently, the sharp fall in copper prices on the London Metal Exchange (from its peak of $8,985 /tonne in July 2008 to just above US $2,812/tonne in December) in the wake of the global financial meltdown has impacted negatively on export revenues, the profitability of the mines, and Government revenue from the mining sector.

Current indications are that the slump in copper prices will continue to have a major negative bearing on the performance of the economy in 2009 given the heavy reliance on the mining sector, unless there is a paradigm shift on the part of Government away from the heavy reliance on the sector (which shift is long over due). The Zambian economy will be susceptible to over reliance on external movements in commodity prices.

Inflation

Year end rate of inflation, as measured by the all items Consumer Price Index (CPI), stood at 16.6% (2007: 8.9%) against a target of 7%. Rising oil prices which rose sharply during the first half of 2008, to a high of US $147 per barrel in July and soaring food prices contributed to the high inflation.

Like most developing economies, Zambia was not spared by the rise in food prices that affected the world. The rise in food prices was largely driven by high grain prices partly attributed to high demand for cereals by rapidly expanding economies in Asia and increased fertilizer prices.

The Kwacha steadily appreciated against most major convertible currencies in the first part of the year. It traded at an average of K3,797/$1 in January and appreciated to about K3,249/$1 by June 2008. In a sudden reversal of fortunes, the second half of the 2008 saw the Kwacha depreciating against the US dollar closing at almost K5,100/$1 in December 2008 – a depreciation of almost 40% since June 2008 caused by falling copper prices and a large withdrawal of portfolio investment as emerging market risk aversion increased, evidenced by the non

Falling copper prices affect trade balance adversely

Plans to boost agricultural production announced

roll-over of investments in Government Securities.

Lending base rate for commercial banks opened at an average of 24% but by December 2008 had risen to around 27%. Although Zambian Banks are not hugely exposed to the global financial crisis, the Banks will become more risk averse as external financing will be difficult to access.

Budget Deficit

The 2008 budget deficit was more favourable than budgeted and stood at K1,394 billion or 2.7% of the GDP and was below the projected deficit of 3%.

Imports, Exports and Balance of Payments

Total exports grew by 7% to US $4,818 million from the US $4,273 million recorded in 2007. Imports increased significantly (29.7%) to US $5,202 million (2007: US $3,623 million).

As a result the current account deficit (including capital grants) increased to US $1,379 million representing 9.1% of GDP. In 2007 the deficit was US $494 million or 2.4% of 2007 GDP.

2009 Macroeconomic Policies

The 2009 macroeconomic objectives are aimed at:

- Achieving a real GDP growth of 5%;
- Lowering inflation to 10%; and
- Limit domestic borrowing to 1.8% of GDP.

To achieve the above targets, Government intends to promote diversification and enhance competitiveness through structural reforms and infrastructure development. The sectors to benefit from the diversification programme are; Agriculture, Tourism and Manufacturing.

In order to control inflation cheaper maize is being made available and added to that oil prices have come down and are expected to remain low for a while.

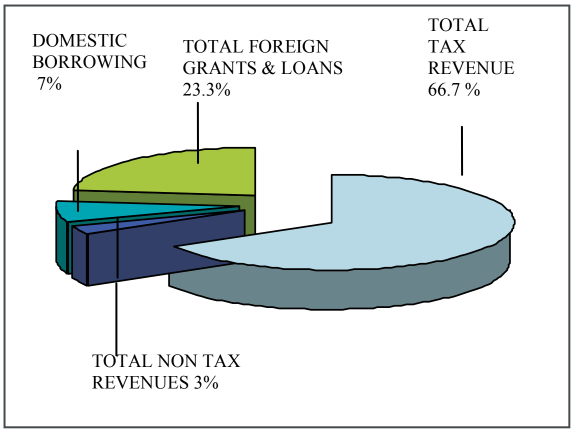
To accelerate infrastructure development the Public Private Partnership policy launched in 2008 will be introduced to Parliament this year to provide the legal framework to support implementation of the policy.

2009 Revenue Estimates

Of the total revenues, K15, 279.0 billion, 66.7% will come from tax revenues, 3.0% non tax revenues (fees and fines, dividends and medical levy) 7% domestic borrowing and 23.3% foreign grants and loans. There is only a marginal reduction on the reliance on foreign grants and loans compared to 2008.

2009 Expenditure

The total expenditure of K15, 279 represents 11.03% increase over the 2008 budget. The expenditure on General Public Services has marginally reduced from 2008 figure of 32.8 % of total budget to 31.8% of total budget in 2009. The allocation to Economic Affairs stands at 19.8% of the total budget, a 3.1% increase compared to the figures for 2008. The bulk of this is as a result of the increased funding to the transport sector of K1, 507 billion (2008:K1, 181.4billion) and also the 37% increase in allocation to the agriculture sector. Government has allocated in excess of K400billion to the Fertilizer Support Program in a bid to improve productivity in the sector. The allocation to health has also increased to 11.9% of the total budget. Education has also received more funds this year, receiving 17.2% of the total budget.



Sector Review

Agriculture

Much needed incentives granted to the Agro sector to stimulate growth and diversification

In 2008, the agriculture sector contracted by 4.0% (2007: 2.7% decline). The poor performance of this sector is attributed to:

- High cost of inputs;
- Limited access to credit, inputs and extension services;
- Inadequate infrastructure;
- Poor livestock management;
- Weaknesses in the Fertiliser Support Program; and
- Failure to attract adequate private investments in the sector.

Opening of unexplored areas for tourism welcome but inadequate infrastructure and service delivery and limited marketing activities presents the greatest challenges for growth in this sector

To address these challenges, Government in 2009 has increased allocation to the sector by 37.0% (K1,096 billion) and to support the diversification into this sector, Government intends to:

- Provide motorbikes and bicycles for extension workers in the fertilizer support program.
- Increase allocation to livestock manage ment and creation of a disease free live stock zone,
- Create a 155,000 hectare farm block Nansanga Farm Block in Serenje District,
- Give greater allocation to Food Reserve Agency to support small scale farmers.

Further promotion of MFEZ to encourage the manufacturing sector comes at an opportune time

In addition to the above, Government has zero-rated VAT on the purchase of various agricultural plant and machinery.

Tourism

To resuscitate growth in the sector and to promote the much needed diversification, Government has almost tripled the allocation for this sector. The unexplored Northern Tourism Circuit will be the biggest beneficiary of this year's budget allocation with the construction of roads, rehabilitation of airports and airstrips and electrification for the Kasaba Bay tourist area. The idea is to attract world class hotels in this area and thereby create many jobs.

A tourism zone is also to be developed in Livingstone to allow investors to readily establish tourist facilities. Roads leading to major tourist centres such as Livingstone, Mfuwe, and Kafue National Park will also receive the much needed funding for the rehabilitation.

Manufacturing

To promote manufacturing, Multi-Facility Economic Zones (MFEZ) are to be created in Chambeshi, Lusaka South and Lusaka East. These economic zones will have quality infrastructure and easy accessibility with a conducive regulatory environment.

Mining and Quarrying

Despite the drop in commodity prices, the mining sector recorded positive growth. Government considers this a very important sector of the economy, and to support the sector through the global economic slowdown Government will provide certain tax concessions; the main ones being the removal of the windfall tax and the ability to claim 100% capital allowances on capital expenditure.

Government will continue to work closely with the stakeholders in this sector to manage the global economic downturn.

Construction

Growth in this sector in 2008 was slow despite favourable growth in the prior year. The slowdown was as a result of supply constraints particularly of cement. Growth in the sector is expected to be sluggish in 2009.

After much lobbying certain tax concessions reintroduced and windfall tax reversed in mining sector

Positive steps taken to attract private sector investment in the energy sector

The proposal to improve the regulatory framework and remove entry barriers to the telecoms sector should bring about competition and improve quality of service

Energy

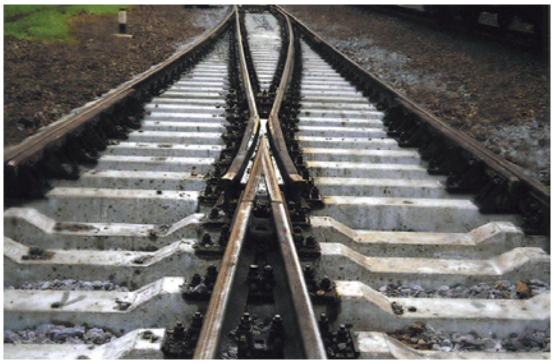
Performance in this sector in 2008 was unsatisfactory as evidenced by significant load shedding as a result of increased demand and decline in total electricity generation. Government's immediate focus going forward will be to complete the ZESCO power rehabilitation project by the end of this year.

Private sector participation is encouraged in this sector and work is already commencing on the Kariba North Bank Extension Project and feasibility studies are ongoing for the Kafue Gorge lower, Itezhi-Tezhi, Kalungwishi and Kabompo projects.

To attract the much needed investment in this sector Government also intends to increase tariffs, which will also improve performance and service delivery of ZESCO.

Transport and Communications

Despite a slight reduction to the growth compared to 2007, this sector still grew by 16% with contributions coming mainly from communication and road transportations – rail transportation performed badly in 2008. Efforts are underway to improve TAZARA through the identification of a strategic partner.



Communication continues to be expensive and is characterized by low quality of service. Government has proposed to improve the regulatory framework and promote competition in the sector. In addition, Government intends to remove barriers to entry in the communications industry through a reduction in international gateway licence fees.

Direct Taxes

Increase in tax credit for differently abled persons

More entitlement on termination of employment

Advanced Income Tax up from 3% to 6 %

Corporate tax rate on export of Cotton up from 15% to 35%

PTT on shares to exclude interest on loans not provided on arms length basis

Personal Tax

Annual income tax bands for 2009 / 2010	Tax rates %
First K8,400,000	0
From K8,400,001 to K16,020,000	25
From K16,020,001 to K49,200,000	30
Above K49,200,000	35

The exempt threshold has been increased by K1,200,000 per annum. This represents an increase of 16.67%.

Under the new bands, an individual earning K12,000,000 per annum will be better off by K360,000 each year. An individual earning 84,000,000 will be better off by K420,000 per annum.

The tax credit applicable to persons with disabilities is increased by K3.6m to K10.8m per annum.

The tax free terminal benefit payable on the cessation of employment is increased to K25m from K20m.

Qualifying gratuities will now be exempt up to the annual exemption limit applicable under PAYE. The balance will be taxed at 25%.

Tax relief on pension contributions to an approved pension scheme are increased to K1,860,000 per annum from K1,620,000.

Corporate Tax

The standard rate of corporation tax remains at 35%.

The period for the carry forward of losses by companies in the energy sector is increased from 5 to 10 years.

The advance income tax on commercial imports by non-registered traders is increased from 3% to 6%.

The income tax rate on profits from the export of cotton is to increase from 15% to 35%. Where local processing capacity has been reached, the rate will remain at 15% on receipt of a permit issued by ZRA.

Donations to charities that are allowable deductions for tax purposes will include those made to public institutions such as educational, health, public safety and similar institutions.

There is now a requirement for all companies to include audited financial statements when filing their income tax returns.

Property Transfer Tax

In computing Property Transfer Tax on shares, interest on loans which are not at arms length will be excluded.

Value Added Taxes

Zero rating used as a measure to enhance growth in the agriculture sector.

Windmill & dehuller manufacturers to benefit from zero-rating.

Amendments to the VAT ACT

VAT on windmills and maize dehullers to be zero rated.

Government has observed a growing capacity by local manufactures to produce windmills and maize dehullers. Therefore in order to support local manufacturers, the Minister proposes to zero rate dehullers and windmills for VAT purposes.

This should benefit the agriculture industry.

Certain agriculture equipment and machinery to be zero- rated

VAT on agriculture equipment to be zero rated

The Minister proposes to zero rate specific agriculture equipment and spares listed below. The measure is intended to ensure that unregistered farmers who cannot claim input VAT on such equipment do not incur any VAT. The goods which qualify for zero rating include:

- Two wheel tractors and accessories;
- Tractors up to 60 horse power;
- Ploughs, Harrows, Disc harrows, Planters Seeders, Rippers/ Sub-soilers, Cultivators;
- Pump sets;
- Treadle pumps;
- Hip pumps;
- Hand pumps;
- Knap sack sprayers; and Suction;
- Delivery and lay flat houses.

Currently the importation of agriculture equipment and machinery is generally subject to VAT. However, there is a mechanism under which import VAT on certain agricultural and other capital equipment may be deferred. For taxable suppliers the deferment effectively extinguishes the need to pay import VAT. In order to benefit from the deferment a special application is required. From a practical perspective the requirement to make a formal application may have made it difficult for local farmers and businessmen to take advantage of this.

The new measure is therefore welcome and should encourage small to medium scale farmers to expand production.

VAT deferment on copper and cobalt concentrate

Deferment of VAT on copper and cobalt concentrates

The Minister proposes to include importation of copper and cobalt concentrates on the import deferment scheme for VAT purposes. The main advantage of this is that it provides a cash flow benefit as import VAT need not be accounted for immediately upon importation.

This measure is aimed at encouraging importation of ores for processing locally and should facilitate a more effective utilization of local smelting capacity.

Zero rating of supplies to developers of industrial parks and Multi-Facility Economic Zones (MFEZ)

In order to expand the country's manufacturing base and enhance national competitiveness, the minister proposes to zero rate all supplies to developers of MFEZ and industrial parks.

In addition it is proposed that foreign supplies

Developers in MFEZ and industrial parks to benefit from zero-rated supplies.

MTV mechanism incorporated in the Act for specific products. This will be in harmony with excise duty.

Tour packages and individual tour services will be zero-rated.

to the MFEZ and industrial parks developers should be exempt from reverse VAT charge. Under the current VAT reverse charge regulations the importation of services from a foreign supplier is subject to VAT reverse charge. The main disadvantage with this is that there can be no corresponding input VAT claim and as a result the cost of importing services increases. The only way in which the impact of VAT reverse charge can be mitigated is by a complex process which involves the appointment of a local tax agent.

House keeping measures

Submission of VAT returns

Suppliers who are engaged wholly or mostly in the production of seasonal crops which are taxable will now be allowed to submit returns on a three monthly tax period.

This measure is intended to reduce the administrative burden of preparing the returns and travelling long distances to submit returns.

Business records should be maintained in English

The VAT Act will be amended to make it a requirement for all business records to be maintained in English. In addition the period of retention of business records will be increased from five to six years.

The inclusion of the requirement to maintain the books in English language and extension of the period to keep business records for six years will harmonize the VAT Act with the Income Tax Act.

Incorporation of Minimum Taxable Value mechanism in the VAT Act

The VAT Act is to be amended to incorporate the implementation of Minimum Taxable Value (MTV) mechanism. In line with this, the VAT Act is to re-introduce the requirement for suppliers or manufacturers of MTV specified goods to submit to the ZRA a schedule of recommended retail selling prices by product category as and when there is a price change, or on registration taking effect, or any other time as the Commissioner General may determine. The schedule of prices should form part of the MTV regulation.

This inclusion of MTV mechanism in the Act will harmonise the VAT Act with the Customs & Excise Act with respect to Excise Duty for the specific products.

This mechanism effectively establishes the minimum amount of VAT that will be collected on specific goods by reference to a MTV.

VAT refund period for exploration companies.

Currently an “intending trader” (includes exploration companies) may claim input tax credit or deduction in respect of goods and services within a period of 4 years of becoming registered. The VAT Act has been amended to extend this period for exploration companies to 7 years.

Zero rating of tour activities

The VAT Act is to be amended to extend the zero rating of tour activities to tourists to cover sub-contracted services among tour operators with the exception of commission charged. The measure will harmonise the treatment of tour packages and individual tour services as zero rated items for the purposes of VAT

Regional standard VAT rates

The current VAT rate of 16% in Zambia is higher than the VAT rate in Botswana, Ghana, Namibia and South Africa, but lower than the VAT rates in Uganda and Tanzania.

Countries	VAT rate
Zambia	**16%**
Botswana	10%
Ghana	12.5%
South Africa	14%
Namibia	15%
Kenya	16%
Uganda	18%
Tanzania	20%

Customs & Excise

Reduction in duties to promote the manufacturing sector and encourage infrastructure investment

Local manufactured products more competitive in the market

Reduction of customs duty rates in the manufacturing and textile industry

Excise duty on HFO and clear bear has been reduced by 15%

Changes in Customs Duty

The manufacturing and textile industry

The Minister proposes to reduce import duty on crude vegetable oil, gray fabrics, and packaging materials from 5% and 15% to 0%.

The main aim of reducing the duty for crude vegetable oils is to encourage local processing and to minimise importation of foreign processed brands.

The reduction in duties of gray fabrics which are used as a raw material by the textile industry are aimed at reducing the cost of production and enhancing competitiveness. This is a positive measure as in the long run it could reduce Zambia's dependency on imported products.

Customs duty on capital items

The Minister has proposed that customs duty on the following capital items be removed:

- Survey & Geophysical instruments,
- Earth working & Levelling equipment,
- Refrigerating or Freezing equipment for cold rooms,
- Track laying Bulldozers and Angle Dozers,
- Graders and Levellers, Scrapers,
- Tamping machines,
- Mechanical Front ended Shovel loaders,
- Pile drivers and Pile extractors,
- Coal and Rock Cutters,
- Tunnelling machinery,
- Mechanical Horses,
- Fork lift Trucks,
- Special purpose Motor Vehicles.

The removal of these duties should reduce costs for the mining and construction industries.

Reduction of customs duty on Heavy Fuel Oil

The Minister also proposes a reduction in excise duty on Heavy Fuel Oil from 30% to 15%.

Heavy Fuel Oils are a major component of the processing costs for mining companies and this reduction in duties should reduce the cost of copper production.

Customs duty on imported cellular phones

Customs duty on cellular phone handsets will be increased from 5% to 15%.

The increment in duty rates is to encourage local production and discourage use of imported handset.

Excise duty

Excise duty on clear beer has been reduced by 15% (from 75% to 60%).

This is aimed at discouraging smuggling of imported clear beers and creating a level playing field for local manufacturers operating in the formal sector.

Export levy

The export levy on cotton seed has been increased by 5% this year. The trend of initially introducing the export levy last year and then increasing it this year has been to encourage local processing capacity.

Housekeeping measures

Contracts between government and donor agencies

Third parties to a contract signed between government and donor agency projects to benefit from the incentives of the donor funded project

The Customs and Excise (General) Regulation are to be amended to provide clarity on the treatment of goods and incidental services provided by third parties under contracts signed between the Government and an approved donor agency for a development or technical assistance project.

Exemption under donor funded projects will be restricted to materials that are directly consumed by the qualifying project. Consumables such as fuels, spares, tyres, etc will not be eligible.

This measure is aimed at minimising any potential abuse of the concessions aimed for donor funded and technical assistance projects.

Definition of Talk time

The definition of talk time to include voicemail, multimedia and internet services

The definition of ''talk time'' has been amended to include all services derived from usage of mobile cellular telephones.
This definition now includes voicemail and data processing services (i.e. SMS and internet services).

Pre-payment and post assessment payment of import and export taxes

The Customs and Excise Act is to be amended to provide some flexibility on the requirement for duty payment be made within five days from the date of issue of an assessment notice on importation of goods, and to allow for payment of duties both pre and post assessment of declarations.

This measure is aimed at mitigating the challenges associated with congestion at the border post.

Mining Tax Regime

Mining tax regime introduced in 2008 budget

In 2008, in an effort to bring about an equitable distribution of wealth, the Minister of Finance and National Planning introduced a new mining tax regime which became effective on 1 April 2008. This was on the back of high copper prices on the international market, stimulated by increased demand from emerging economies such as Brazil, Russia, India and China that experienced phenomenal growth in 2008.

Controversy over 2008 budgetary changes to the mining tax regime

The 2008 budget proposals resulted in the following changes:

- An increase in mineral royalties from 0.6% to 3%;
- An increase in the rate of corporate tax from 25% to 30%;
- Introduction of a 15% variable profit tax;
- Introduction of a windfall tax, which is triggered at different price levels;
- The reduction in rate of capital allowances available on capital expenditure from 100% to 25% which was to be phased down over 2 years.

Windfall taxes repealed in 2009

Following the changes to the mining tax regime in 2008, it was anticipated that the mining sector would contribute $415 million towards Government revenues.

Income from hedging activities consolidated with income from mining

The 2008 changes were the subject of much controversy and were met with mixed reactions and opinions from different stakeholders. Mining companies were unhappy that the development agreements negotiated with Government prior to investment and which provided for a tax stability period had been set aside. On the other hand Government's principle motive for changing the mining tax regime was to ensure that the nation received a fair return from its resources, and that the revenues from the mining sector would benefit the people of Zambia.

However, following the recent global financial and economic crisis, which resulted in a sharp decline in copper prices and in light of the subsequent downturn in local mining industry, Government has had to reconsider the enforcement of the changes introduced in the 2008 budget.

The 2009 budget therefore proposes the following changes to the mining tax regime.

Windfall tax

Repeal of windfall tax provision.
This will have little impact in the current environment as current copper prices are well below the first trigger price. However, this should be seen as a positive development.

Hedging transactions

Under the 2008 budget, hedging transactions were to be treated as separate activity from the principal mining activity. This meant that income/ losses from hedging activities could not be consolidated with income from the principal mining activities. Further, income from hedging was to be taxed at the higher rate of 35%.

Hedging activities will now be treated as part and parcel of the mining activities and taxed at the current mining rate.

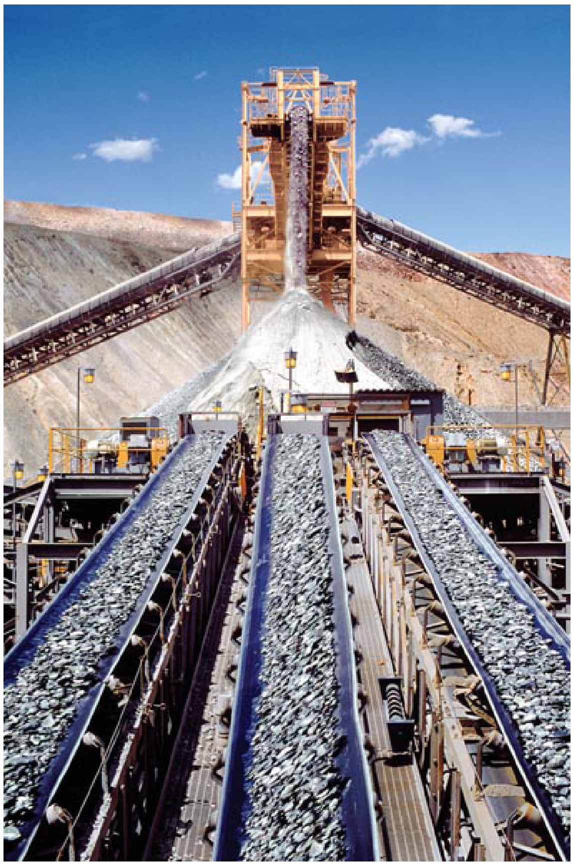
This should relieve the taxation burden of mining companies as hedging losses may be offset against income from mining activities and vice versa. Given that mining companies are still subject to variable profit tax it is not certain that the tax rate for hedging/ mining income will be limited to 30%. The actual rate of tax will depend on the ratio of assessable income to turnover.

Reinstatement of capital allowances to 100%

Capital allowances

The 100% deduction for capital allowances granted to mining companies prior to 2008 is to be reinstated.

This change should once again encourage mining companies to continue capital investment programmes.



Duty removed on importation of copper flakes, powder and blisters

Customs and excise duty

The 2009 budget proposes to remove customs duty on importation of copper powder, copper flakes and copper blisters. These were previously taxed at 15%.

This measure should encourage companies to import copper ores for smelting and processing in the country. It should also improve utilisation of current smelting facilities.

The budget also proposes a reduction in excise duty on heavy fuel oils from 30% to 15%.

This reduction in duty rates is expected to reduce the cost of production for mining companies.

Extension of VAT deferment scheme for copper and cobalt concentrates

Import VAT deferment scheme

The budget proposes to extend the import VAT deferment scheme to copper and cobalt concentrates.

The import deferment scheme provides cash flow relief on payment of VAT on importation of goods into the country. This measure is expected to improve the cash flow of mining companies as they will not be required to pay import VAT on importation.

Miscellaneous

Concession provided for investors and developers in the MFEZ and industrial park in the 2009 budget

Zambia is a member of both COMESA AND SADC

Tax Incentives:

The minister has proposed to establish industrial parks and extend tax incentives under the Zambia Development Agency Act to developers of, and investors in Multi Facility Economic Zones (MFEZ) and industrial parks. The Minister proposes to:

• remove withholding tax on management fees, and interest payments to foreign contractors;

• zero rate supplies to developers of MFEZ and industrial parks;

• exempt foreign suppliers to the MFEZ and industrial parks from reverse VAT charge; and

• exempt equipment and machinery imported for the development of MFEZ and industrial parks from customs duty.

In order to qualify for the incentives, the investors will need to meet specific criteria.

Rebate for film makers in Zambia

To encourage the shooting of movies in Zambia a rebate will be provided to film makers of up to 15% of the expenses incurred in shooting movies locally.

Investment in railway network

The fuel levy paid by the Railways Systems of Zambia will be used for investment in the rail network.

Trade blocks

Zambia is a member of both the Common Markets for East Africa and Southern Africa (COMESA) and the Southern African Development Community (SADC).

Countries under each trade block include.

COMESA	SADC
Libya	Angola,
Egypt	Botswana
Sudan	DRC
Eritrea	Madagascar,
Djibouti	Malawi
Ethiopia	Mozambique
Uganda	Namibia
Kenya	Seychelles
DRC	South Africa
Rwanda	Swaziland
Burundi	Tanzania
Angola	**Zambia**
Zambia	Zimbabwe
Malawi	
Zimbabwe	
Swaziland	
Madagascar	
Mauritius	
Comoros	
Seychelles	

Below are some of objectives of the two trade blocks, which are similar and which seek to enhance trade in the region.

Zambia could benefit from COMESA AND SADC objectives

Objectives of the SADC

• Elimination of trade barriers to encourage intra-SADC trade through removal of both tariff and non-tariff barriers as well as ensuring preferential trade arrangements between and among the SADC member states;

• To ensure efficient production within SADC reflecting the current and dynamic comparative advantages of its members;

• To contribute towards the improvement of the climate for domestic, cross border and foreign investment;

• To enhance the economic development, diversification and industrialization of the SADC region; and

• Establishment of a Free Trade Area in the SADC region.

Objectives of the COMESA

• Market integration

• Production or project-directed integration

• Development integration

• Formation of free trade area

• Formation of a customs union with common formal tariff

• Formation of a monetary union

Income tax - Companies

Corporate tax rates	2009/2010	2008/2009
Standard rate Banks		
Income not exceeding K250 million	35%	35%
Income exceeding K250 million	40%	40%
All other companies except mining companies	35%	35%
Farming	15%	15%
Export of non traditional products[1]	15%	15%
Foreign earnings of Sun International Limited	15%	15%
New listings on LuSE	2%discount*	2% discount*
New listings on LuSE > 33% shares taken up by Zambians	7%discount*	7% discount*

* Discount on applicable corporate tax rates available in the first year only.

Presumptive tax levied on small business with turnover < K200 million (excludes income earned from consultancy)	3%	3%
Advance income tax	6%	3%

Capital allowances[2]

Expenditure on buildings		
Initial allowance on industrial buildings[3]	10%	10%
Industrial buildings	5%	5%
Commercial buildings	2%	2%

[1] With the exception of cotton lint exported without an export permit from the Minister of commerce.
[2] Capital allowances are computed on a straight line basis.
[3] Initial allowance granted in the charge year in which the industrial building has been put into use.

Capital allowances[1]

Expenditure on buildings

Initial allowance on industrial buildings[2]	10%	10%
Industrial buildings	5%	5%
Commercial buildings	2%	2%
Capital allowances continued	**2009/2010**	**2008/2009**
Implements, machinery and plant Used for farming, manufacturing, tourism and leasing	50%	50%
Implements, machinery and plant - Other	25%	25%
Motor vehicles - Commercial	25%	25%
Motor Vehicles - Non-commercial	20%	20%
Farming: Farm improvement/ Farm works allowance	100%	100%

Tax treaties

Canada, Denmark, Finland, France, Germany, India, Ireland, Italy, Japan, Kenya, Netherlands, Norway, Romania, South Africa, Sweden, Switzerland, Tanzania, United Kingdom, Uganda.

Income tax – mining companies

Company rate	**2009/2010**	**2008/2009**
Basic rate	30%	30%
Variable profit tax[3]	Up to 15%	Up to 15%
Windfall tax	Repealed	Triggered at different price levels

---

[1] Capital allowances are computed on a straight line basis.
[2] Initial allowance granted in the charge year in which the industrial building has been put into use.
[3] Applicable when taxable income from mining operations exceeds 8% of the gross sales.

Carry forward of trading losses

	No. of years	No. of years
Konkola Copper Mines plc	20	20
All other miners of base metals	10	10
Prospecting & exploration companies	5	5

Income Tax - Individuals

2009/2010		2008/2009	
Annual income bands	Rate (%)	Annual income bands	Rate (%)
First K8,400,000	0	First K7,200,000	0
K8,400,001 to K16,020,000	25	K7,200,001 to K14,820,000	25
K16,020,001 to K49,200,000	30	K14,820,001 to K48,000,000	30
Above K49,200,000	35	Above K48,000,000	35
Housing benefit[1]	Rate (%)	Housing benefit:	Rate (%)
Rate at which employees annual gross emoluments disallowed	30	Rate at which employees annual gross emoluments disallowed	30

2009/2010		**2008/2009**	
Scale	Amount	Scale	Amount
Engine size < 1,800 cc:	K9,000,000	Engine size < 1,800 cc:	K9,000,000 p.a
Engine size > 1,800 cc, < 2,800 cc:	K15,000,000	Engine size > 1,800 cc, < 2,800 cc:	K15,000,000 p.a
Engine size > 2,800 cc:	K20,000,000	Engine size > 2,800 cc:	K20,000,000 p.a

Dividends from Lusaka Stock Exchange

2009/2010
Dividend income earned by individuals on shares listed on the LuSE is exempt from income tax.

2008/2009
Dividend income earned by individuals on shares listed on the LuSE is exempt from income tax.

[1] Housing benefit is taxable on employer

Medical Levy

2009/2010	2008/2009
Banks or financial institutions paying interest on savings or deposit accounts, treasury bills, government bonds or similar financial instruments deduct Medical Levy of 1%.	Banks or financial institutions paying interest on savings or deposit accounts, treasury bills, government bonds or similar financial instruments deduct Medical Levy of 1%.

Employer's obligation for NAPSA

	2009/2010	2008/2009
NAPSA (employer and employee)	5% of gross pay, max K391,481.8 per month	5% of gross pay, max K304,897.80 per month

Rates of Withholding Tax

	2009/2010		2008/2009	
	Resident	Non-resident	Resident	Non-resident
General	15	15	15	15
Dividend	15	15	15	15
Management or consultancy fee	15	15	15	15
Interest deemed to be from a source within the Republic	15	15	15	15
Bank interest to individuals exceeding K750,000 p.a.	15	15	15	15
Royalties	15	15	15	15
Rent from a source within the Republic	15	15	15	15
Commissions	15	15	15	15
Non-resident construction and haulage contractors	N/A	15	N/A	15
Non-resident entertainers/sports persons fees	N/A	15	N/A	15
Payments made by mining companies (of base metals)				
Dividend	0	0	0	0
Interest to any lender	15	15	15	15
Management fees to shareholders	15	15	15	15

VAT

Taxable Supplies – rate

	2009/2010	2008/2009
Supply of goods & services in Zambia	16%	16%
Import of goods & services into Zambia	16%	16%
Export of goods & services from Zambia	0%	0%

Registration

Threshold	K200m p.a.	K 200m p.a.

Payment - due date

Supply of taxable goods & services VAT accounting period*	21 days following the end of the
Import of goods	At the time customs duty payable

Repayment - due date

Standard	30 days after submission of VAT return

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

Concessions for priority sectors

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

2009/2010	2008/2009
- No tax on dividends paid for a five year period. - Not tax on profits for five year period - Only 50% of profits taxable in years 6 to 8. - Only 75% of profits taxable in years 9 to 10. - Deferment of VAT on machinery and equipment. - 0% customs duty on raw materials and capital goods for a five year period.	- No tax on dividends paid for a five year period. - Not tax on profits for five year period - Only 50% of profits taxable in years 6 to 8. - Only 75% of profits taxable in years 9 to 10. - Deferment of VAT on machinery and equipment. - 0% customs duty on raw materials and capital goods for a five year period.
- Exemption of customs duty on importation of machinery and plant.	

2009/2010	2008/2009
- Exemption from VAT reverse charge for suppliers for MFEZ and industrial park - No withholding tax on management fees, consultancy fees and interest repayments to foreign contractors.	

Priority sectors

Floriculture, horticulture, processed foods, tea/tea products, coffee/coffee products, textile production/processing, manufacturing engineering products, fertilizer production, cement production, timber processing and production, leather production and processing, building mini-hydro power stations and education and skills training.

Carbon tax

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

	2009/2010	2008/2009
Engine size < 1,500 cc	K50,000 K	50,000 p.a
Engine size > 1,500 cc, < 2,000 cc	K100,000 K	100,000 p.a
Engine size > 2,000 cc, < 3,000 cc	K150,000 K	150,000 p.a
Over 3,000cc	K200,000	K200,000 p.a
Vehicles propelled by non pollutant energy sources	Nil	

Property transfer tax

Land & buildings, shares	3 % of open market value

Notes