

2011 Budget

14 October 2010



Welcome and Introduction

Mark Libakeni

14 October 2010



Objectives

- Alert clients to potential implications of the budget proposals
- Provide a forum for clients to share views and shape responses to the proposed changes
- Provide an opportunity for business to seek clarification from ZRA
- Broaden the debate on the economy

Programme

Budget 2011/2012

Time	Activity	Speaker
0700hrs	Registration and Buffet Breakfast	
0800hrs	Welcome and Introduction	Mark Libakeni, Assurance Partner PricewaterhouseCoopers
0810hrs	Zambia : Challenges 2010 – 2011 and beyond	Perry Perone Resident Representative – IMF
0840hrs	Commentary on Macroeconomic Perspective	Nitesh Patel, Advisory Leader PricewaterhouseCoopers
0855hrs	Analysis of the tax changes	Jyoti Mistry, Tax Leader PricewaterhouseCoopers
0925hrs	Discussion and Questions & Answer	Zahir Nathani, Tax Manager PricewaterhouseCoopers
0945hrs	Close	Mark Libakeni, Assurance Partner PricewaterhouseCoopers

Common Threads of this year's budget. . .

- Remaining focused on improving the quality of life for the people **“in every corner of this country”** through:
 - Quality education
 - Creation of a Fair market for agricultural produce
 - Provision of clean water
 - Provision of quality medical care
 - Improved infrastructure
- Continued recovery of the Global Economy that continues to drive demand for primary commodities such as copper
- Remains steadfast in its resolve to diversify the economy from mining

Common Threads of this year's budget. . .

- Continued positive growth- aiming for the twelfth year
- 50% of the budget is focused at the social sectors and infrastructure
- The Environment- new tax on plastic bags!!!

“A people's Budget from a people's Government”



A Macroeconomic Perspective

Nitesh Patel

14 October 2010

Overview

- Introduction
- What was expected from the 2010 budget
- How did we perform in 2010?
- Key performance indicators in the 2011 budget
- Sector analysis
- Conclusion

A Macroeconomic Perspective

Introduction – our closing remarks from the 2010 budget

Is there enough of a “stimulus” to recover in the short term?

Have we done enough to move away from the dependency on copper and focus on the longer term sustainable sectors such as agriculture, energy and manufacturing?

Do the budget changes address the issues of diversification and competitiveness?

2010 Budget – What was expected?

Global perspective

- End of GFC!
- Great optimism and renewed market confidence as a result of growing commodity prices & an attractive investment destination
- Renewed growth expected in BRIC and the demand for commodities to drive Africa's growth

Local perspective

- Greater diversification – move away from Copper dependency
- More private sector participation through the PPP initiatives
- Increase in FDI – mining, energy, agriculture & manufacturing
- Inflation under control and to remain at single digit
- Relatively stable exchange rate

A Macroeconomic Perspective

How did we perform in 2010?

	2007 Actual	2008 Actual	2009 Actual	2010 Forecast
GDP	6.2% 4% - Global 5.7% - Africa	5.8% 2.5% - Global 5.1% - Africa	6.4% (0.6%) - Global 2.3% - Africa	6.6% 4.8% - Global 4.5% - Africa
Inflation	8.9%	16.6%	9.9%	8%
Exchange Rate	K4,100/\$ Jan K3,900/\$ Dec	K3,900/\$ Jan K5,100/\$ Dec	K5,000/\$ Jan K4,780/\$ Dec	K4,515/\$ Jan K4,850/\$ Sep
Copper Prices	\$5,600/ton Ave	\$5,900/ton Jan \$8,985/ton July \$3,200/ton Dec	\$3,220/ton Jan \$5,240/ton July \$6,980/ton Dec	\$7,385/ton Jan \$6,760/ton July \$8,000/ton Sep

A Macroeconomic Perspective

2011 Budget – What are the key performance indicators?

	2009 Actual	2010 Forecast	2011 Forecast
GDP	6.4%	6.6%	6.4%
	(0.6%) Global 2.6% Sub Sahara	4.8% Global 5% Sub Sahara	4.2% Global 5.5% Sub Sahara
Inflation	9.9%	8%	7%
Gross International Reserves	5 months of import cover	5 months of import cover	4 months of import cover

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Sector analysis

Agriculture

- The sector grew by 7.6% in 2010
- Recorded highest maize production of 2.8 million tonnes (2009 - 1.9 million tonnes)
- The development of the Nansanga Farm Block (155,000 hectares) nearing completion
- Preparatory works to commence at the Luena Farm Block in Kawambwa District in 2011
- Allocation of K262 billion to livestock and fisheries development for 2011
- Rehabilitation of FRA sheds across the country – K15 billion allocated to the Food Security Program for 2011
- Development of livestock service centres in 13 districts across the country to reduce the incidence of animal diseases – K26.6 billion allocated in 2011

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Sector analysis – cont'd

Tourism

- Sector performed well in 2010 and is expected to grow by 25% in 2011 (2009: negative 13.4%)
- This 25% growth emanates primarily from the global economic recovery and the 2010 FIFA World Cup
- Northern Tourism Circuit: Enhanced by rehabilitation of airports, airstrips and road infrastructure
- Infrastructure development in the Kafue and Lusaka National Parks
- Going forward, Government aims to reposition Zambia “as a premier nature, wildlife and cultural tourism destination”

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Sector analysis – cont'd

Mining & Quarrying

- Still mainstay of economy
- Copper production projected to reach 720,000 tonnes to December 2010 – levels last seen in the early 1970's – target of one million tonnes in the medium term
- Increase in demand for commodities in BRIC resulted in a rebound in prices
- FDI in this sector has continued from major players such as Australia, India, China and now Brazil
- Potential developments in other extractive industries imminent – Nickel, Iron ore, Uranium, Manganese



Sector analysis – cont'd



Energy

- On a positive note, load shedding has reduced in 2010
- 34% increase in budgetary allocation towards the Rural Electrification Program (2010: K314 billion, 2009: K235 billion)
- Kariba North Bank Extension project is on stream and is expected to commence operations in 2013
- A number of energy projects are underway, including Ithze-thezi, Kabompo, Kalungwishi and Kafue Lower Gorge projects – Kafue Lower gorge is expected to be Africa's largest PPP project in the energy sector
- Eleven oil and gas exploration block licences have been awarded

Sector analysis – cont'd

Transport and Communications

- Privatisation of Zamtel achieved in 2010
- Reduction in international gateway licence fees resulting in competitive call tariffs
- Government has doubled the budget allocation for the construction and rehabilitation of road network across the country in 2010 to K3.1 trillion (2010: K1.5 trillion)
- Efforts underway to identify a strategic partner for TAZARA



A Macroeconomic Perspective

Sector analysis – cont'd



Manufacturing

- Multi Facility Economic Zone's (MFEZ) in Chambishi and Lusaka South are taking shape
- Very little commentary in the 2011 budget relating to the performance in the manufacturing sector
- More should have been said and done given this is a key diversification sector

Conclusion

- Macro economic indicators suggest positive growth prospects for Zambia in the short to medium term
- Investments in the energy and agro sectors long overdue
- More the private sector participation in infrastructure development through the PPP route
- High interest rates still hamper the growth of local businesses
- However.....
- the Ministers budget speech does not provide sufficient detail and wonder if the positive macro economic indicators are a gloss
- Little mention of progress in achieving key performance indicators towards the Millennium Development Goals
- No mention of the implementation of the Sixth National Development Plan
- And what about the 2011 elections.....

Thank you

Tax Changes

Jyoti Mistry

14 October 2010



Discussion agenda

- Revenue Analysis
- Key Tax changes
- Comparison of tax regimes
- Fiscal v Tax policy

Revenue Analyses

	2011 K billion	% of total revenue	% inc (dec)	2010 actual K billion	% of total revenue	2010 budgeted rev
Direct taxes	7,800.8	38.0%	22.1%	6,387.5 (e)	36.5%	5,703.1
Indirect taxes	7,429.3	36.2%	30.0%	5,576.0 (e)	31.8%	5,655.2
Non tax revenues	539.0	2.6%	(25.3%)	721.8	4.2%	721.8
Domestic financing	1,219.8	5.9%	(57.1%)	2,844.0 (e)	16.2%	1,487.0
Foreign Financing	3,548.5	17.3%	79.7%	1,974.2 (e)	11.3%	3,123.7
Total Revenue Financing	20,537.4	100.0%	27.2%	17,503.5	100.0	16,717.8

Revenue analysis

	2011 Tax revenue K bn	% of total tax rev	Inc over last yr	Budgeted tax rev 2010	% of total rev
CIT	1,337.1	8.8%	(2%)	1,363.3	11.7%
PAYE	3,710.6	24.4%	14.2%	3,249.9	27.8%
Other taxes	894.7	5.8%	2.5%	872.6	7.5%
Mining tax	1,858.4	12.2%	660.7%	244.3	2.1%
VAT	3,998.8	26.3%	36.3%	2,939.7	25.2%
Customs	1,674.5	11.0%	27.3%	1,318.2	11.3%
Excise	1,756.0	11.5%	4.0%	1,687.9	14.5%
Total	15,230.1	100.%		11, 675.9	100.0%

Key Changes – ***Income Tax***

- Increase in exempt threshold by 25%
- Increase in bands ranging from 2.4%% to 29%
- Increase in tax free terminal benefit from K25m to K35m (40% increase)
- Tax credit for persons with disabilities increased from 1.92m to K3m (56% increase)
- Mortgage interest relief removed for residential properties

Key changes – ***Corporate Tax***

- Telecommunications companies will have staggered increase CT rate as follows:
 - First K250m at 35%
 - Profits above K250m at 40%
- NB – CIT for telecommunications industry in Kenya – 30%, Uganda – 30%, Tanzania – 30%. Standard rate of CIT in these countries is also 30%.

Key Changes – ***Property Transfer Tax***

- PTT Increased from 3% to 5% of market value – effective 1 April 2011;
- Anti- avoidance provisions introduced to PTT Act

Key changes - **VAT**

- VAT to be charged on fee based banking services at 16% - e.g. cheques, drafts, transfers, excess withdrawal fees, administrative charges, etc;
- VAT of 16% on development of dwelling houses;
- VAT of 16% on property insurance;
- VAT of 16% on casualty insurance;
- Increase threshold for value of gifts or promotional material supplied VAT free from K25,000 per annum per individual to K 100,000;
- Hammer mills zero –rated;
- Individual components of funeral service to be exempted.

Key Changes – ***Customs and Excise***

- Customs duty on imported electricity removed;
- Excise duty of 10% on use of plastic bags;
- Increase customs duty on deformed bars from 0% to 25%;
- Increase customs duty on cold rolled coils from 0% to 15%;
- Increase customs duty on galvanised cold rolled coils from 0% to 25%.
- Review of procedures for duty drawback scheme – to simplify and make more accessible

Key Changes – ***Customs and Excise - continued***

- Remove requirement for importers to apply for pre-clearance for entry of goods prior to importation;
- However registration and submission of entries for customs purposes to be notified to ZRA at least 7 days prior to importation
- Increase threshold at which individual requires to use a clearing agent from US \$500 to US \$2,000;
- Introduce specific tariffs for dangerous chemicals in line with WCO recommendations;
- Amend provisions for charging interest – to be charged on simple not compound basis

Key changes

Miscellaneous changes

- Requirement to submit audited accounts for small and medium enterprises removed;
- Penalties for late payment of mineral royalties aligned with income tax – i.e. late payment penalties of 5% per month will be levied;
- Motor vehicle licence fee to be increased by 50%

Corporate Income Tax – regional analysis

Country	Tax rate (%)
Zambia	35
Namibia	35
Angola	35
Kenya	30
Rwanda	30
Uganda	30
Tanzania	30
South Africa	28
Botswana	25
Mauritius	15

Comparison of tax regime

VAT – regional analysis

Country	VAT rate (%)
Tanzania	20
Uganda	18
Rwanda	18
Zambia	16
Kenya	16/12 (for electricity,energy,fuel,oil)
Mauritius	15
Namibia	15
South Africa	14
Botswana	12
Angola (Consumption tax)	10

Effective Personal Tax rate in the region

Country	Effective tax rate on annual income of US\$20,000	Effective tax rate on annual income of US\$5,000
Rwanda	23.6	31
Uganda	23	28.2
Kenya	10.2	26.5
Tanzania	14.2	25.8
Zambia	13.2	28.2
South Africa	18	18

Economic v Tax policy

*“...the Government will remain focused on what we have all worked so hard for – to improve the **quality of life** for our people in every corner of this country”*

*“...the construction sector is projected to record growth of 10% in 2010 compared to 9.5% in 2009. This growth will be driven by strong demand from **residential**, commercial and public infrastructure construction projects across the country.”*

Economic v Tax Policy

Tax measures :

- Removal of mortgage interest relief;
- VAT of 16% on residential property development;
- increase in property transfer tax from 3% to 5%.

Economic v Tax Policy

- The Minister confirms the governments intention to tackle factors attributable to high borrowing costs.

“I am concerned that lending rates are still excessively high. Small, medium and micro enterprises, the bedrock of our economy, are the worst affected, paying substantially larger premiums than bigger firms..”

Tax measures

- VAT to be charged on fee-based banking services; i.e. on manager/ bank cheques, excess withdrawal fees, standing orders, stop payments, etc

The wheel of change moves on, and those who were down go up and those who were up go down

- *Jawaharlal Nehru*

Closing remarks

By

Mark Libakeni