

# Priorities aligned

## Budget commentary

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## Commentary

*Zambia was rated as the 9<sup>th</sup> fastest growing economy by IMF*

*2011 GDP growth for Zambia is expected to be 6.5% compared to 5.2% for Sub-Saharan Africa*

*Zambia has maintained single digit inflation*

In the recent past Zambia has seen significant improvement in its economic performance.

The recent IMF report on the worlds fastest growing economies indicated that in 2011 Zambia was ranked as 9<sup>th</sup> fastest growing economy in the world and 6<sup>th</sup> fastest in Africa.

GDP growth for 2011 for Sub-Saharan Africa and the global economy are projected at 5.2% and 4% respectively. Zambia however is expected to grow by 6.5% in 2011. This is in line with the initial projection of 6.4%.

Whilst the increase in global food and energy prices continue to have an adverse impact, Zambia has nevertheless managed to maintain single digit inflation - 8.7% in October 2011 compared to 7.9% in December 2010.

The Lusaka Stock Exchange registered impressive growth in the first 9 months of 2011 with the share price index increasing by 9.3% whilst market capitalization rose by 44.9%.

Zambia's international reserves increased to 4.3 months of import cover.

Despite the increased fuel prices and copper price fluctuations, the Kwacha maintained its resilience against major

currencies and only marginally depreciated in the last few months.

Whilst Government notes these economic successes it also acknowledges that the benefits have not filtered to the majority of Zambians where the levels of poverty remain unacceptably high. According to the 2011 Human Development Report Zambia is still ranked among the poorest at 164<sup>th</sup> position out of 189 countries.

Consequently Government has focused on policies and strategies to ensure equitable distribution of economic benefits. Hence, the theme for the 2012 budget:

***“Making Zambia a better place for all”.***

In order to achieve this, economic policies will be geared towards creating an enabling and stable environment, conducive to foreign direct investment and employment creation. In line with this Government has set the following objectives for 2012:

- Achieve real GDP growth in excess of 7%;
- Restrict inflation to below 7%;
- Limit overall fiscal deficit to 4.3% of GDP and maintain gross international reserves of at least 4 months of import cover;

# Priorities aligned

## Budget commentary



*Focus on improvement in health care, water and sanitation*

- Commit at least 50% of the budget to social sector and infrastructure development.

In order to improve the quality of life of the ordinary Zambian, priority has been given to social sector development to improve health care and water and sanitation services; through infrastructure development and enhancement of skills and knowledge.

It is also encouraging to note that Government acknowledges the need to improve private sector productivity. Amongst others it has pledged to accelerate regulatory reforms to reduce the cost of doing business.

A key strategy is to also invest in vocational and technical education to equip the labour force with the appropriate skills to meet the demands of a growing economy .

To finance key public sector projects, Government has committed to collaborate and encourage private sector participation through Public Private Partnerships (PPP).

In its election manifesto Government emphasised the need to eradicate corruption and improve transparency and accountability to effectively promote pro-poor growth.

The above is all promising and positive and could live up to the peoples' expectations, but are the budgetary allocations adequate to deliver on that promise?

*Financing key public sector projects through PPP*

*Benefit of increased tax exempt threshold restricted to those in formal employment*

The key expenditure priorities can be summarised as follows:

- Expenditure on education and skills development to increase by 26.7% over 2011 (17.5% of the total budgeted expenditure)
- Expenditure on health services to increase by 45% over 2011 (9.3% of the total budgeted expenditure)
- Expenditure on agriculture to increase by 37.9% from 2011 (29.3% of the total budgeted expenditure will be used to finance agricultural, fuel and energy and transport projects)
- Expenditure on Local Government and housing development to increase by over 100% from 2011.

29.9% of the total budgeted expenditure has been allocated to general public services which will include servicing of domestic and external debt.

### Key tax changes

The theme for this year's budget "**Making Zambia a better place for all**" and the key tax changes confirms Governments principal objective of focusing on poverty alleviation and improvement of social services.

In line with this, the tax exempt threshold in the 2012 budget has been doubled and the proposed increase in tax bands on average exceeds inflation. Whilst this does put "*more money in the pockets*", the benefit will be restricted to those in formal employment.

# Priorities aligned

## Budget commentary



*Further reduction in corporate tax for agricultural income*

*Increase in mineral royalty rate to 6%*

*Marginal tax rate for banks abolished*

An analysis of the total tax revenues indicates that significant reliance is still placed on PAYE taxes borne by a small proportion of those in formal employment (estimated 22% of total tax revenues in 2012).

To encourage and promote development in the agriculture sector the rate of corporate tax on income from agricultural activities is to reduce from 15% to 10%. This is in addition to existing incentives which provide for additional/ accelerated capital allowances and exemption from withholding tax on dividend payments for the first five years of commencing farming.

In order to secure a greater share of the benefits of the gains arising from the increases in copper prices in the recent past, Government proposes to increase the rate of mineral royalties to 6% on all minerals and precious metals. In addition, instead of allowing income from all mining activities to be consolidated, income from hedging activities will now be taxed separately. The above measures should significantly increase revenue from mining and enable Government to satisfy peoples' desire for an equitable share of the income arising from the country's mineral wealth.

However, it remains to be seen whether these measures coupled with the "variable profits tax" will render Zambia as a less attractive mining investment destination.

To facilitate cheaper borrowing and access to funds for businesses, Government is to abolish the marginal rate of tax applicable to banking profits in excess of K250m. However this will only be achieved if the tax savings are passed onto borrowers in the form of reduced interest rates.

### Summary

The 2012 Budget focuses on determining and identifying key strategies, policies and priorities. There is much discussion of the areas targeted for development. However, the budget does appear to be flat and lacks detail on how to successfully realise the social and economic development objectives.

There is:

- Lack of clarity on how the energy needs of the economy will be met to facilitate accelerated growth;
- Lack of clarity around how some of the supply demands will be met in terms of raw materials and skilled, semi skilled and artisan labour input in the short to medium term;
- Insufficient detail on the actions necessary to diversify the economy;
- Insufficient information on how much of the increased revenues from mining will be diverted to the other sectors in the longer term;
- A lack of a clear and coherent strategy to efficiently and effectively partner with the private sector to finance major public sector projects under PPP's;
- No mention of streamlining of the public sector through the Public Sector Reform Programme.

# *Priorities aligned*

## Budget commentary



All in all the verdict appears to be that the 2012 Budget builds on the strong economic fundamentals already in place and the economic and social performance will be further enhanced by focusing on transparency, accountability and poverty alleviation.

# Priorities aligned

## The Economy



# The Economy

### Economic performance

#### Gross Domestic Product (“GDP”)

Real GDP growth rate for 2011 is projected to close at 6.5% (2010: 6.6%), in line with the initial projection of 6.4%.

Zambia’s GDP compares favourably with that of Sub Saharan Africa which is projected to be 5.2% for 2011 (2010: 4.7%).

The current sovereign debt crisis in Greece, Italy, Spain, Portugal and other European countries has hampered growth of advanced economies (1.6%). This Euro zone crisis could negatively affect growth in developing countries.



The main drivers of Zambia’s growth are reported to be from the agriculture, manufacturing, construction and transport and communications industries. Based on the Minister’s speech, the 2011 year end GDP growth rate would have been significantly higher had the mining sector performed according to initial 2010 projection.

### Other macro economic indicators

#### Inflation

Annual inflation increased to 8.7% as at October 2011 compared to 7.9% recorded in December 2010.

This increase in inflation is as a result of higher annual food inflation despite Zambia achieving a record high maize harvest of approximately 3 million metric tonnes.

The reported inflation rate is however expected to reduce by the end of 2011 on account of the recent reduction in fuel prices.



It is important to note however, that even though inflation was above the 2011 projected inflation rate of 7%, Zambia has over the last few years managed to maintain a single digit inflation rate.

#### Exchange Rate

The exchange rate is indisputably one of the most important macroeconomic variables. Movements in exchange rate have significant pass-through effects

Government targets GDP growth of 7% for 2012 (2011: 6.5%)

Increased inflation of 8.7% as at October 2011 is reported to have been caused by an increase in food inflation.

# Priorities aligned

## The Economy



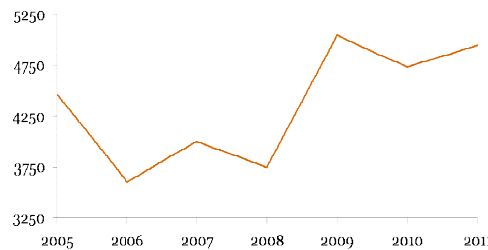
*K4.8 trillion allocated to for the enhancement of the education sector*

*Zambia was assigned a B+ credit rating which will enhance access of both the public and private sectors to the global capital market, as the rating instils confidence into international investors, not only about Zambia's ability to pay but about local firms.*

*Increased dependence on domestic and external debt placed on the 2012*

to consumer prices as Zambia is generally considered to be a net importer of finished goods.

The exchange rate of the Kwacha against major convertible currencies such as the US dollar exhibited resilience, however depreciated marginally by 4.5% to K4,950/US \$ in October 2011 (2010: K4,736/US \$).



A market based approach in determining exchange rates still stands.

However, the Bank of Zambia will continue to maintain a close eye on any exchange rate volatility.

### Domestic Borrowing

In 2011, Government's aim was to limit domestic borrowing to 1.4% of GDP and they successfully achieved this. In 2012, Government has maintained its macroeconomic objective of limiting domestic borrowing to 1.3%.

In terms of external financing, Zambia was assigned a B+ credit rating by two reputable international rating agencies, Fitch and Standard & Poor's. This rating in essence demonstrates that economic growth can be translated into an increase in the country's capacity to borrow internationally and locally. This opens up the opportunity for Zambia to diversify its external financing sources to support government's commitment

to improve infrastructure, particularly in the road and energy sectors.

### The 2012 Budget

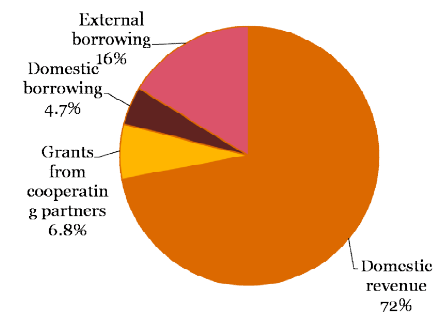
The 2012 budget focuses on promoting economic and social development through an appropriate balance between expenditure, taxation and borrowing.

In line with the new Government's manifesto, the 2012 budget prioritises expenditure in the four core development areas namely agriculture; education and skills development; health services; and local government and housing.

The 2012 budget amounts to K27.7 trillion and the following targets have been set:

Key performance indicators	Target 2012
GDP	7%
Inflation	7%
Domestic borrowing % of GDP	1.3%
International reserves (months)	4

The budget will be financed from the following sources:



The 2012 budget sees a slight reduction in domestic revenues to 72.1% of the total budget (2011: 76.8%). There is also a notable increase in Domestic and External

# Priorities aligned

## The Economy



*Government's continued support to the agricultural sector with increased funding for infrastructure*

*Ambitious plan to decentralise local councils is underway*

*Commitment to remedy the inadequacies of the current health care sector have been demonstrated*

*Greater emphasis and support for diversification*

borrowing from K3.8 trillion in 2011 to K5.83 trillion in 2012.

### **Sector analysis**

#### **Agriculture Development**

In 2011, Zambia has again recorded a maize bumper harvest of 3 million metric tonnes, surpassing last year's record of 2.8 million metric tonnes.

Government intends to redesign the Farmer Input Support Programme and differentiate extension service provision to overcome constraints from the previous years. It is also envisaged that further investment in additional storage facilities and ongoing infrastructure works for the various farming blocks in the country will continue.

#### **Education and Skills Development**

In striving towards the attainment of high quality, universally accessible and development oriented education for all Zambians, the education sector's budget allocation has increased by 26.7 % to K4.8 trillion for 2012. From this allocation, K796 billion has been allocated for the construction of additional classroom blocks and K126 billion will be provided for the upgrading of two colleges into universities and the building of a new university.

#### **Health Services**

It has been identified that the current health provision system is one that struggles to provide basic health services. Therefore, in 2012, the Government has increased the allocation to the health sector by 45%

to K2.28 trillion and has committed itself to progressively increase budgetary allocation to the health sector, in line with the Abuja declaration.

Of the allocated amount, K302 billion will be for drugs and medical supplies and K389 billion has been provided for infrastructure and medical equipment which includes the construction of new district hospitals.

There is no mention of the continuity and sustainability of the "Mobile" health-care system.

#### **Local Government and Housing Development**

The decentralization of appropriate functions to councils over the medium-term is a priority and therefore, in 2012, the focus will be to build capacity at the local level.

To enable the planned decentralisation, grants to councils have been increased by more than 100% to K257 billion

To enhance the sanitation services in our communities and ensure the provision of safe, potable drinking water, K150 billion has been provided for the rehabilitation and construction of boreholes in rural areas. In urban areas, development and rehabilitation of water supply and sanitation infrastructure systems will be undertaken.

# Priorities aligned

## The Economy

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*The northern tourist circuit to continue receiving investment*

*Continued investment for the Rural Electrification Fund*

*MFEZ's will be the preferred route to grow the manufacturing sector*

### *Other sector analysis*

#### **Diversification and Productivity**

In line with the previous budgets, Government will continue with efforts to diversify the economy and is determined to promote growth in the agriculture, tourism and manufacturing sectors.

#### **Agriculture**

The need to support crops beyond maize has been emphasised. This will further add to diversity within the agricultural sector.

There is also need to invest in irrigation infrastructure and develop & rehabilitate livestock infrastructure. Development of farming blocks will continue together with promotion of agro-processing.

#### **Tourism**

In the tourism sector, focus will be placed on promoting and expanding tourism products and developing the infrastructure to support this industry. Private sector investment will continue to be promoted in the northern circuit, including the Kasaba Bay Tourism Resort Development Project.

K21.1 billion has been allocated to tourism marketing & promotion and K15 billion to recapitalise the Zambia Wildlife Authority ("ZAWA")

#### **Manufacturing**

The Government intends to continue with the development of the Multi-Facility Economic Zones to facilitate private sector development, promote growth of Micro Small and Medium enterprises and develop rural based enterprises.

#### **Energy**

There has been an increased allocation to the Rural Electrification Fund to K437.1 billion (2011: K314 billion) while K864 billion has been allocated as Government's equity contribution to the construction of the Kafue Gorge Lower power project.

Significant progress is also expected to be made on projects such as the Kabompo Gorge Hydro Power Station

#### **Transport and Communications**

Although K4.48 trillion has been provided for the road sector, the bulk of this will go towards completion of ongoing projects.

There has been an allocation for feasibility studies and design for new projects and notably, K60 billion has been provided for preparatory works on the Lusaka ring-road project which is expected to reduce traffic congestion in the capital city.

#### **Mining**

Whilst one of the priorities is a move towards greater diversification, the mining sector continues to be one of the largest contributors to the national treasury.

Little has been mentioned in the 2012 budget regarding this key sector, however Zambia's copper production is still forecast to reach one million metric tonnes per annum in the medium term.

A number of new mines are currently in the construction phase and it is anticipated that some of these, including CNMC Muliashi Mine in Luanshya may commence production in early 2012.

# Priorities aligned

## The Economy



*A push for private sector participation in the financing of key public sector projects*

### **Public Private Partnership**

The Government is clear that growth in the economy should be largely private sector driven. In this theme private sector participation in financing key public sector projects is encouraged.

The experience from already implemented PPP projects will be used to strengthen project identification, development and implementation.

The most recently commissioned PPP project was the construction of the One-Stop Border Post in the border town of Kasumbalesa. The completion of this project has also spurred the construction of a similar facility on the Democratic Republic of Congo side of the border.

# Priorities aligned

## Direct Tax



## Direct Taxes

*Increase in income tax bands for personal taxes.*

2012 / 2013		2011 / 2012	
Income	Tax rate	Income	Tax rate
First K24,000,000	0%	First K12,000,000	0%
From K24,000,001 – K33,600,000	25%	From 12,000,001 – K20,820,000	25%
From K33,600,001 – K68,400,000	30%	From K20,820,001 – K50,400,000	30%
From K68,400,000	35%	Above K50,400,000	35%

### Personal Tax

#### *Changes in the annual tax bands*

*Exempt threshold increases by 100%*

*All annual tax bands have increased*

*Upper rate of corporate tax of 40% for banks to be abolished*

The threshold for exempt income has increased by K1,000,000 per month. This represents an increase of 100%.

The annual tax bands have also increased from 2011/2012. An individual earning K2 million per month will now be better off by K263,250 each month. Individuals earning K5.7 million per month will be better off by K370,500 each month.

The 100% increase in the tax exempt threshold and increase in tax bands should have a positive impact on consumer spending power, particularly for those earning between K1 million and K2 million per month.

### Corporate Tax

#### *Rate of tax chargeable*

##### **Standard rate**

The standard rate of corporate tax remains at 35%.

##### **Banks**

The Minister proposes to abolish the upper rate of corporate income tax for banks, which is currently 40% for all taxable profits in excess of K250 million. Going forward banks will pay corporate income tax at a flat rate of 35%.

# Priorities aligned

## Direct Tax

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*Rate of income tax for the agricultural sector to be reduced from 15% to 10%*

*Withholding tax at 15% will apply to commission payments to non-residents*

*Tax charge year will be changed from 31 March to 31 December*

*This could give rise to cash flow implications*

*This may affect the timeframe an entity has to finalise their accounts and prepare their tax return*

This measure has been introduced in an attempt to reduce the cost of borrowing in Zambia. However this will only be achieved if the tax savings are passed onto borrowers in the form of reduced interest rates. Where the savings are retained as equity or where they are used to increased dividends to shareholders, then the intended objective will not be met.

### Farming

The Minister proposes to reduce the corporate income tax rate from 15% to 10% for the agricultural sector.

Providing all other factors, both local (e.g. inflation, lending rates, etc) and global (e.g. global market demand and supply) remain stable, the reduction in the corporate tax rate should increase the return on investment for commercial entities carrying on an agriculture business. All things being equal this measure should stimulate investment and increase production in the agricultural sector.

### Withholding tax

Payment of commissions to non-residents will now be deemed to have a source within Zambia.

As a result withholding tax at a rate of 15% will apply to commission payments to non-residents.

### Effective date

All of the above measures take effect from 1 April 2012.

### Housekeeping measures

#### Change of tax year

The Minister proposes to harmonise the fiscal year and the tax charge year. As a result the tax charge year for 2012

will run for 9 months from 1 April 2012 to 31 December 2012. Furthermore, succeeding charge years will run from 1 January to 31 December.

The income tax filing and payment dates have been adjusted in line with the change in tax year. These amendments are summarised as follows:

The deadline for submission of the final income tax return will be 30 June instead of 30 September, the current filing deadline.

Therefore, a company with a year end of 31 December will have only **6** months to submit their final tax return instead of 9 months following the year end. A company with a 30 September year end will now have 9 months to submit their tax return instead of 12 months. A company with a 31 March year end will have 15 months to submit their tax return instead of 6 months. A company with a 30 June year end will have 12 months to submit their tax return instead of 3 months.

The provisional tax filing and payment dates have been amended to align with the change of tax year. The provisional tax filing and payment dates will now be 30 March, 30 June, 30 September and 30 December.

# Priorities aligned

## Direct Tax



For the transitional tax year (i.e. the tax year 1 April 2012 to 31 December 2012) the provisional tax filing dates will be as follows: 30 June 2012, 30 September 2012 and 30 December 2012.

Whilst it is not clarified in the ZRA Guide it is anticipated that the final tax payment date for any balance of tax payable will move to 30 June instead of 30 September.

This could give rise to cash flow implications. For instance, companies with an accounting year end of 30 September or 31 December will now be required to pay provisional taxes and final income tax liabilities 3 months earlier than under the current regime. While companies with an accounting year end of 31 March or 30 June will now be required to pay provisional taxes and final income tax liabilities 9 months later than under the current regime.

We await further guidance from ZRA on any additional transitional rules which may be applied to implement the change.

### *Penalty regime under Turnover Tax System*

As part of the housekeeping measures, it is proposed that anti-avoidance penalties on incorrect returns submitted as a result of negligence, willful default or fraud for taxpayers liable to turnover tax be reduced as follows:

- From 17.5% to 1.5% in the case of negligence
- From 35% to 3% in the case of willful default
- From 52.5% to 4.5% in the case of fraud.

As the current provisions of the Income Tax Act 1966, as amended (ITA), provide that the anti-avoidance penalties be

levied by reference to the amount of income understated or expenses overstated we assume that in the case of turnover tax, the above penalties will be levied by reference to the **turnover omitted**.

We await the detailed legislative provisions to determine the extent to which penalties will arise under the anti-avoidance provision.

*Anti avoidance penalty regime for turnover tax reduced*

# Priorities aligned

## Direct Tax

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## Mining Sector

### *Highlights based on the Finance Minister's speech*

*Mineral royalty rate increased to 6%*

#### **Mineral Royalty Rate**

The Minister proposes to increase the rate of mineral royalty from 3% to 6% for base metals and industrial and energy minerals. He also proposes to increase the rate of mineral royalties for precious metals and gemstones from 5% to 6%.

*Income arising from hedging activities to be taxed under separate source*

Base metals are non precious metals that are either common or more chemically active, or both common and chemically active and include iron, nickel, aluminium, lead, zinc, tin, magnesium, cobalt, manganese, titanium, scandium, vanadium and chromium.

A mineral royalty is payable by a holder of a large scale mining licence, large scale gemstone licence, small scale mining licence, small scale gemstone licence or an artisan's mining right. In addition, entities extracting minerals or in possession of minerals extracted in the Republic whether or not extracted under a mining right will also be liable to pay mineral royalties.

Mineral royalties are calculated on the "gross value" or "norm value" depending on the type of mining licence held by the company, and is payable within fourteen days following the end of the month in which the sale of minerals is done.

The "gross value" is defined in the legislation as the realised price for a sale free-on-board at the point of exit

from Zambia or point of delivery within Zambia which is undertaken at arm's length.

The "norm value" is, in essence, determined by reference to the cash price per tonne of metal sold using the London Metal Exchange (LME) or Metal Bulletin (MB). Where prices are not quoted on the LME or MB then it can be determined by reference to the cash price published by any other exchange market which is approved by the Commissioner-General of the Zambia Revenue Authority.

#### **Hedging Income**

The Minister proposes to separate income arising from hedging activities from the core mining activities for income tax purposes.

Currently, income from hedging activities is consolidated with income from the principal mining activities for corporate income tax purposes. Mining companies that engage in hedging activities can offset losses incurred from its mining operations against any hedging income and vice versa.

Going forward losses arising from either of these activities can only be offset against income from the same activity / source.

# Priorities aligned

## Direct Tax



*Withdrawal of Import VAT Deferment Scheme for imports of copper and cobalt ores*

This means that even if the core mining activities of a company operate at a tax loss, the company may still be liable to corporate income tax if the hedging activities yield net taxable income.

Given this, income and losses arising from mining activities and hedging transactions will need to be accounted for separately for tax purposes for future years.

It is not clear from the current budget pronouncements as to whether the income from hedging activities will be taxed at the mining rate or at the general rate of corporation tax of 35%.

### **Effective date**

The above measures take effect from 1 April 2012.

### **Import VAT**

The Minister proposes to withdraw the Import VAT Deferment Scheme for imports of copper and cobalt ores and concentrates.

This means that companies that import copper and cobalt ores and concentrates will now be required to account for import VAT.

This will have a cash flow impact for companies whose supplies are either classified as zero or standard rated for VAT purposes.

In essence mining companies will now need to pay import VAT on

importation of the ores and concentrates and then reclaim it back through the VAT return.

### **Effective date**

The Import VAT measure will come into effect from 1 January 2012.

### **Customs and Excise**

The Minister proposes to reduce export duty from 15% to 10% on the exportation of copper and cobalt concentrates.

The Minister also proposes the introduction of export duty of 10% on all other unprocessed or semi-processed mineral ores.

These measures are aimed at reducing the burden of export duty on companies currently exporting unprocessed copper and cobalt ores, and at levelling the playing field by taxing exporters of other minerals that currently do not process the ore.

### **Effective date**

The Customs and Excise measure will take effect on 1 January 2012.

*Export duty reduced from 15% to 10% on exportation of copper and cobalt concentrates and ores*

*Introduction of export duty of 10% on all other unprocessed ores*

# Priorities aligned

## VAT



## Indirect Taxes

*Highlights based on the Finance Minister's speech*

### Value Added Tax (VAT)

*Copper and cobalt ores and concentrates to attract import VAT under the normal system*

#### ***Removal of copper and cobalt ores and concentrates from the Import VAT Deferment Scheme***

Copper and cobalt ores and concentrates currently enjoy deferment of Import VAT.

Under normal circumstances, an importer of goods is required to account for VAT at the time of import. This "input" / "import" VAT is then claimable under normal VAT rules subsequent to the import. This has a cashflow impact on the importer due to the timing difference between the payment and refund/reclaim of the VAT. However, an importer of goods under the VAT Deferment Scheme is not required to account for import VAT on qualifying goods. This results in a cashflow benefit for the importer.

In 2009 copper and cobalt ores and concentrates were added to the Import VAT Deferment Scheme to promote the utilisation of excess smelter capacity in Zambia.

The Minister now proposes to remove copper and cobalt ores and concentrates from the Import VAT Deferment Scheme.

It would appear that there is now little or no spare capacity for smelting cobalt and copper ores and concentrates and as a result the Government wishes to withdraw the VAT Deferment concession on importation of cobalt and copper ores and concentrates.

This measure is effective from 1 January 2012.

### Housekeeping measures

#### ***VAT accounting aligned with the Government's fiscal year***

As part of the housekeeping measures the VAT accounting year, which currently runs from 1 July to 30 June, has been aligned with the Government's fiscal year. Therefore it will now run from 1 January to 31 December.

*VAT accounting period to run from 1 January to 31 December*

*Road public transport services by coach or bus with sitting capacity of 14 or more is exempt for VAT purposes*

# Priorities aligned

## VAT



### ***Confirmation of VAT exemption status of certain services***

The VAT Act is to be amended to confirm that transportation of persons by road in a bus or coach, licensed under the Road and Road Traffic Act , having a seating capacity for at least 14 adult persons is exempt.

The VAT Act is to also be amended to confirm that the provision of post-secondary education services is exempt.

# Priorities aligned

## Customs and Excise



## Highlights based on the Finance Minister's speech

### Customs and excise duty

#### Processing

The Minister proposes to reduce export duty from 15% to 10% on the exportation of copper and cobalt ores.

The Minister also proposes the introduction of export duty of 10% on all other unprocessed or semi – processed mineral ores.

These measures are aimed at levelling the playing field for all exporters of mineral ores and to encourage local processing and value addition.

#### Tourism

In 2007, the Government removed customs duty on light passenger aircrafts. In line with this, the Minister proposes to remove the 5% customs duty on the importation of helicopters and micro-lights.

This measure is aimed at supporting local tourism.

#### Non-commercial imports

The Minister proposes to increase the duty rebate threshold on travellers' personal effects or non-commercial imports from US \$500 to US \$1,000.

This measure is aimed at benefiting travellers coming with personal effects from outside Zambia.

All the above Customs and Excise measures are effective from 1 January 2012

#### Housekeeping measures

##### *Spirits and Wine Industry*

Duty rates on wines and spirits are to be reduced to competitive levels relative to those prevailing in the Southern African Development Community region.

Further, the valuation base for purposes of determining the Value for Duty Purposes (VDP) is to be changed from value of 'input cost' to value of 'sales'.

These measures are aimed at ensuring that local investors who produce these products are not disadvantaged.

##### *Agriculture*

The Customs and Excise (Suspension) (Medicaments, Agricultural Machinery and Equipment) Regulations 1999 that suspended customs duty on agricultural tractors is to be revoked. Instead, the customs duty rate for these goods is to be changed to free.

This measure is intended to harmonise the duty rate on tractors used in agriculture to zero percent.

##### *Harmonised Commodity Description and Coding System (HS Code)*

There is a proposal to change the 2007 HS coding that Zambia is currently using to align it to the World Customs Organisation (WCO) 2012 HS coding.

*Revision of the current HS coding to align it with the WCO 2012 HS coding*

*Duty rates on wines and spirits to reduce*

*Review and improvement of the approval process for PBOs.*

# *Priorities aligned*

## Customs and Excise



This is as result of the need for the Food and Agriculture Organisation to start monitoring trade in agricultural products for food security purposes.

The proposed changes are also necessary in order to introduce codes for newly invented products.

### ***Public Benefit Organisations***

The procedure for the approval of organisations to qualify as Public Benefit Organisations (PBOs) for customs duty purposes is to be reviewed.

This is aimed at ensuring that the approval process is simplified and that incentives are given to deserving PBO.

# Priorities aligned

## ZDA Tax Incentives



## Incentives under the Zambia Development Agency Act

*Highlights based on the Finance Minister's speech*

*Investments of USD 10 million or more no longer granted additional incentives*

### Removal of the Section that grants additional discretionary incentives

The Minister proposes to remove Section 58 of the Zambia Development Agency Act. This section provides for additional incentives that may be negotiated by an investor investing USD10 million.

Currently investors in the **Priority Sectors** investing not less than USD 500,000, are entitled to:

- a) business profits chargeable to tax as follows:
  - 0% of the profits for a period of 5 years starting from the first year profits are returned;
  - 50% of the profits from the 6th to the 8th year after profits are returned; and
  - 75% of the profits per annum from the 9th to the 10th year after the profits are returned; and
  - 100% of the profits following the 10th year after profits are returned.
- b) exemption from WHT on payment of dividends for 5 years from the year of first declaration;

- c) 100% improvement allowance for capital expenditure on improvements or for the upgrading of infrastructure;
- d) suspension of Customs Duty for 5 years on most machinery and equipment.

The removal of Section 58 means that only investors in the **Priority Sector** will qualify for tax incentives providing a minimum investment of USD500,000 is made.

The principle objective of this measure was to reduce corruption and improve transparency.

The **Priority Sectors** include amongst other things:

- a. Floriculture;
- b. Horticulture;
- c. Processed foods;
- d. Beverages and Stimulants;
- e. Production and the processing of textiles;
- f. Manufacturing of metal based products;
- g. Conversion of phosphates and any other related material into fertiliser;
- h. Conversion of rock materials into cement;

# Priorities aligned

## ZDA Tax Incentives



- i. Production and processing of raw timber into wood products;
- j. Production and processing of leather;
- k. Building of mini-hydro power stations;
- l. Education and skills training;
- m. Information and Communication Technology (ICT);
- n. Health;
- o. Manufacturing industry, e.g iron and steel products, wood and wood products, plastic products, cement, fertilizer, and others ;
- p. Tourism;
- q. Processing of gemstones, forest products, agricultural products and non-ferrous metals and their products.

No additional incentives will be available to investors in the non priority sectors irrespective of the level of investment. However, investments in Multi Facility Economic Zones (MFEZ) remain unaffected.

In addition, investments by Micro and small enterprises and investments of less than US\$500,000 in Priority Sectors/Products will still be eligible for incentives.

# 2012 Zambia Tax Data Card



## Corporate tax rates

	2012	2011/2012
Standard rate	35%	35%
Banks		
Income not exceeding K250 million	35%	35%
Income exceeding K250 million	<b>35%</b>	40%
Telecommunication companies		
Income not exceeding K250 million	35%	35%
Income exceeding K250 million	40%	40%
Farming	<b>10%</b>	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	7% discount	7% discount
Turnover tax levied on small business with turnover < K200 million (excludes income earned from consultancy services and mining operations)	3%	3%
Advanced Income Tax	6%	6%
<b>Capital deductions***</b>		
Investment allowance on industrial buildings****	10%	10%
Initial allowance on industrial buildings****	10%	10%
Industrial buildings allowance	5%	5%
Commercial buildings allowance	2%	2%
Implements, machinery and plant		
Used for farming, manufacturing, tourism and leasing	50%	50%
Implements, machinery and plant- Other	25%	25%
<b>Motor vehicles</b>		
Commercial	25%	25%
Non-commercial	20%	20%
<b>Farming</b>		
Farm improvement/ Farm works allowance	100%	100%
<b>Trading losses</b>		
Carry forward of losses	<b>No. of years</b>	<b>No. of years</b>
Non - mining companies	5	5
Hydro and thermo power generation companies	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.

# 2012 Zambia Tax Data Card



## Mining Companies - Income Tax

### Company rate

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

### Capital deductions

Capital allowance on capital equipment	100%
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### Trading losses

Carry forward of trading losses	No. of years
Konkola Copper Mines Plc	20
From mining operations	10
Prospecting and exploration companies	5

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

### Tax Treaties

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

\* These treaties have not been ratified and are therefore ineffective currently

# 2012 Zambia Tax Data Card



## Income Tax Individuals

**2011/2012**

### Monthly income bands

	Income from K	Income to K	Tax rate K	Tax on band K	Cumulative tax on income K
First	0	1,000,000	0	0	0
Next	1,000,001	1,735,000	25	184,000	184,000
Next	1,735,001	4,200,000	30	739,500	923,500
<b>Over</b>	<b>4,200,000</b>		<b>35</b>		

**2012**

### Monthly income bands

	Income from K	Income to K	Tax rate K	Tax on band K	Cumulative tax on income K
First	0	2,000,000	0	0	0
Next	2,000,001	2,800,000	25	200,000	200,000
Next	2,800,001	5,700,000	30	870,000	1,070,000
Over	5,700,000		35		

### Housing benefit taxable in the hands of the employer

Rate at which employees annual gross 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:	K9,000,000 p.a
Engine size > 1,800 cc, < 2,800 cc:	K15,000,000 p.a
Engine size > 2,800 cc:	K20,000,000 p.a

# 2012 Zambia Tax Data Card



## Dividends from Lusaka Stock Exchange

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

## Withholding Tax

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

## Medical levy

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

## Payments made by companies carrying on mining operations

	<b>Resident</b>	<b>Non Resident</b>
Dividend	0%	0%
Interest to any lender	15%	15%
Management fees to shareholders	0%	15%

# 2012 Zambia Tax Data Card



## VAT

### Taxable supplies- rate

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

### Registration

Threshold	K 200m p.a.
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### Payment- due date

Supply of taxable goods & services	21 days following the end of the VAT accounting period*
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### Repayment- due date

Standard	30 days after submission of VAT return
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\*accounting period means the month following the month of registration and each succeeding calendar month.

### Property Transfer Tax

Land and buildings, shares	5% of open market value
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# 2012 Zambia Tax Data Card



## Concessions for Priority Sectors

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

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

## Carbon Tax

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

Note:

Engine size < 1,500 cc	K 50,000 p.a.
Engine size > 1,500 cc, < 2,000 cc	K 100, 000 p.a.
Engine size > 2,000 cc, <3,000 cc	K 150, 000 p.a.
Over 3,000cc	K 200, 000 p.a.
Vehicles propelled by non pollutant energy sources	Nil

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

# 2012 Zambia Tax Data Card



## Deadlines and Penalties

2012	Deadline/Obligation	Immediate penalty	Interest
<b>Income Tax- Companies</b>			
Provisional tax/return Late payment	3 quarterly instalments on 30 June, 30 September & 30 December	5% per month or part month	2% + DR
Underestimation of tax	2/3 of the total tax liability payable by the final quarter	25%	N/A
Late filing of return	End of every quarter on the dates as stated above where applicable	K360,000 per month or part month	N/A
Final tax/ return Late payment Late filing of return	30 June* 30 June*	5% per month or part month K360,000 per month or part month	2% + DR N/A
<b>Income Tax- Individuals</b>			
Final Tax return Late payment Late filing of return	30 June* 30 June*	5% per month or part month K180,000 per month or part month	2% + DR N/A
<b>Withholding Tax</b> Late payment	Within 14 days after the end of the month of accrual / payment	5% per month or part month	2% + DR
<b>Payroll (PAYE)</b> Late payment	Within 14 days after the end of the month of accrual / payment	5% per month or part month	2% + DR
<b>VAT</b> Late lodgement	21 days after the end of the accounting period**	Daily penalty- higher of K180,000 and 0.5% x tax payable	N/A
Late payment	21 days after the end of the accounting period**	Daily penalty- 0.5% x tax payable	2% + DR

### Key

DR= Bank of Zambia discount rate

\* The deadline for submission of the final Income Tax return has been changed from 30 September to 30 June. ZRA have yet to clarify the effective date for this amendment. We anticipate that the change will take effect for the tax year 2012

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

# 2012 Zambia Tax Data Card



2013	Deadline/Obligation	Immediate penalty	Interest
<b>Income Tax- Companies</b>			
Provisional tax/return Late payment	4 quarterly instalments on 30 March, 30 June, 30 September & 30 December	5% per month or part month	2% + DR
Underestimation of tax	2/3 of the total tax liability payable by 4 <sup>th</sup> quarter	25%	N/A
Late filing of return	End of every quarter on the dates as stated above where applicable	K360,000 per month or part month	N/A
Final tax/ return Late payment Late filing of return	30 June 30 June	5% per month or part month K360,000 per month or part month	2% + DR N/A
<b>Income Tax- Individuals</b>			
Final Tax return Late payment Late filing of return	30 June 30 June	5% per month or part month K180,000 per month or part month	2%+ DR N/A
<b>Withholding Tax</b>			
Late payment	Within 14 days after the end of the month of accrual / payment	5% per month or part month	2% + DR
<b>Payroll (PAYE)</b>			
Late payment	Within 14 days after the end of the month of accrual / payment	5% per month or part month	2% + DR
<b>VAT</b>			
Late lodgement	21 days after the end of the accounting period**	Daily penalty- higher of K180,000 and 0.5% x tax payable	N/A
Late payment	21 days after the end of the accounting period**	Daily penalty- 0.5% x tax payable	2% + DR

### Key

DR= Bank of Zambia discount rate

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

The updated information on this budget bulletin and tax data card is based on the budget pronouncements of 11 November 2011. The specific legislative provisions to effect the budget pronouncements are subject to enactment by Parliament. We therefore caution that the information highlighted in this data card may be subject to change. Accordingly, you should confirm the current tax position as necessary.

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