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Looking ahead

2014 Budgetary changes

11 October 2013

Looking ahead
Commentary

2014 National Budget

GDP growth for 2013 of 6% below target of 7%

Copper output rises by 13% despite fall in commodity prices

Fiscal deficit of 8.5% of GDP significantly exceeds target

As Zambia prepares to celebrate 50 years of independence in 2014, the Government has reiterated its pledge to achieve more equitable distribution of wealth.

Building on last year's theme, the 2014 budget reflects the Government's intention to 'consolidate growth and social justice in peace and unity'.

GDP growth falls in line with regional average

GDP growth is projected to be above 6% in 2013. This is slightly lower than the 7% growth forecast by Government last year due to a decline in agricultural output. It does however remain in line with the projected regional average for Sub-Saharan Africa (excluding South Africa) in 2013, according to the World Bank[1].

Inflationary pressures remain

Although inflation was targeted at no more than 6% in the last budget, it has remained above target at 7% in 2013. This reflects inflationary pressures associated with the removal and reduction of the fuel and maize subsidies earlier in the year.

To address these inflationary challenges, the Bank of Zambia raised its policy rate in the first half of the year from 9.25% to 9.75%.

Further inflationary pressure is likely to arise from the significant increase in public sector pay, which came into effect in September 2013. This could however be countered by the announcement in the current budget to remove customs duty on crude oil imports, which may reduce the cost of petroleum products and help keep inflationary pressures in check in 2014, if the cost savings are passed on to the end consumer.

Copper output expected to increase

Commodity prices have generally been lower in 2013 due to slower growth in the world economy. Copper prices fell from an average of US$7,960 per metric tonne in 2012 to US$7,416 between January and September 2013. Despite this, copper production increased by 13.2% in the first half of 2013 to over 374,000 metric tonnes compared to the same period in 2012. Based on this, copper production for the year is expected to exceed that of last year.

Fiscal deficit higher than expected

This year's fiscal deficit of 8.5% of GDP significantly exceeds last year's projected fiscal deficit of 4.3% of GDP.

According to the World Bank, the 2013 budget has come under stress due to several unplanned expenditures and a shortfall in revenue collection. It said the additional expenditures have arisen from accumulated fuel supply losses, public sector wage awards, higher-than-expected spending on the Farm Input Supply Programme, and the expected repayment of Food Reserve Agency loans guaranteed by the Government in 2012.

In addition, the expected shortfall in domestic tax collection of 1% of GDP in 2013 will contribute to the increased fiscal deficit, with mining revenue in particular expected to fall short of earlier estimates. This reinforces the need for Government to rigorously pursue its diversification policy to reduce the economy's dependency on mineral extraction.

[1] Zambia's Economic Brief, October 2013, The World Bank

Looking ahead Commentary

2014 National Budget

International reserves at three months of import cover

Stability in mining taxation will be welcomed

Government reiterates that SI55 does not constitute exchange control

International reserves

Gross International Reserves stood at US$2.7 billion as at the end of September 2013, about US$200 million more than this time 12 months ago. This translates into three months of import cover and falls short of last year's target for 2013 of at least four months' import cover.

Job creation targets for the medium term

As in last year's budget, the Government has reiterated its laudable aim of creating 200,000 'decent jobs'. Formal sector employment rose by over 58,000 in the first nine months of 2013, although the Government said this figure did not reflect the number of jobs created in the overall economy. It is not clear whether 'decent jobs' means formal sector jobs, so it is difficult to measure whether the Government's job creation target will be met. Furthermore, with the number of youths joining the labour force expected to more than double to 300,000 by 2030, more challenging targets may be needed in the medium to long term.

Mining tax largely untouched

Taxation of the mining sector remained mostly unchanged. This is likely to be welcomed by the mining sector and investor community at large as it demonstrates the Government's intention to maintain stability and encourage investment. However, a 10% export duty on semi-processed metals and base metals has been introduced to encourage local value addition and employment creation.

Foreign gemstone sales halted

In April, the Government banned foreign sales of Zambian gemstones in a bid to improve revenue collection from the sub-sector and create more visibility. The development of local auctioning will be welcomed providing the Zambian producers can realise world market prices.

Government says SI 55 will not amount to exchange controls

SI 55 of 2013 was introduced in July 2013 to monitor balance of payments transactions. The Government hopes this will facilitate better monitoring of financial flows between Zambia and the rest of the world. Government has reiterated that this does not amount to exchange controls and that the Government has no plans to introduce such controls. However, it is critical that the Government implements this policy in a manner that is responsive to the commercial needs of business.

Kwacha rebasing exercise a success

On 1 January 2013, Government rebased the Kwacha in an exercise designed to streamline accounting procedures. The Kwacha rebasing has been executed efficiently, with K3.7 trillion of the old currency having been withdrawn from the economy by the end of September, a withdrawal rate of 97%. The cash exchange exercise will continue until the end of 2015 to enable Zambians, particularly those in rural areas, to exchange their old currency for new.

Looking ahead
Commentary

2014 National Budget

Progress made on road improvement projects

Expenditure on education increases by 53%

Commitment to invest in district and tertiary level hospitals

Allocation of the US$750 Eurobond

Following the successful issue of a US$750 Eurobond in September 2012, the Government this year outlined how it intends to spend this money. The large majority of the money has been allocated to infrastructure projects including power generation, roads and railways.

Independent sources indicate that work has commenced on the various road projects due to benefit from the Eurobond with a total project value of US$210 million.

However, it appears work has yet to start on any of the power projects due to benefit. Rehabilitating of rail infrastructure has been held up by procurement delays.

There have been recent calls by public bodies to allow them to follow the Government's lead and tap international debt markets for funds. As yet, the Government has not indicated publically whether it will allow this to happen. Caution should be urged until a clear debt management strategy is created to minimise escalation of Government debt.

Tourism services to pay VAT

The successful hosting of the UNWTO conference should have raised Zambia's profile as a tourist destination. However, proposals in this year's budget to add VAT to some tourism activities will increase costs for tourists visiting a country that is already an expensive tourist destination.

Health personnel shortages likely to remain

The health sector has been awarded 9.9% of the budget for 2014. The Government plans to continue to develop regional hubs to decentralise storage and distribution of medical drugs and supplies, and to continue investing in district hospitals and improve services in tertiary-level hospitals. However, with the public sector recruitment freeze, it may be difficult for the Government to address the shortage of doctors and nurses that afflicts the sector.

Education spending does not address quality issues

Expenditure on education has increased by 53%. The World Bank notes that the quality of basic education remains 'poor', with the poor, rural youth and girls in particular disadvantaged in terms of access to good quality basic education. It also notes that although enrolment in basic education has increased, it would appear that schooling is not translating into skills that are transferrable to the jobs market.

While building additional education infrastructure is important, it remains unclear how the Government plans to improve the quality of education in Zambia's schools and colleges.

Looking ahead
Commentary

2014 National Budget

Tax raising measures address fiscal deficit

Strengthening of Transfer Pricing rules addresses concerns raised by civil society bodies

Increase in tax free allowance may provide a fiscal stimulus by increasing take-home pay

Key Tax Changes

Revenue raising measures

In the context of the Government's commitment to reduce the fiscal deficit, the majority of the tax measures are revenue raising in nature. The key measures include:

- Excise duty on airtime increased from 10% to 15%
- Increase in excise duty on clear beer from 40% to 60%
- A new tax on money transfer services set at 0.2% of the value of money transferred
- An increase in property transfer tax on land and shares from 5% to 10%
- Changing the VAT status from 0% to the standard rate of 16% on a range of items including certain tourism and international logistics services, and bio fuel products

While it is clearly necessary to control the fiscal deficit, it is important that the impact of any tax measures is properly assessed so that it does not have an adverse or unintended impact. It should be noted that some of the measures outlined above could adversely impact the diversification programme and growth prospects.

Increase in tax free band of 36%

The 36% increase in the tax free threshold from K2,200 to K3,000 per month is welcome as it should increase lower paid workers' real spending power given that it exceeds inflation by 29%.

New measures to tackle tax avoidance

A number of measures have been announced to enhance the powers of the Zambia Revenue Authority and to counter perceptions of unacceptable tax planning by certain businesses. This is unsurprising in an era of unprecedented scrutiny of the tax affairs of multi-national businesses by civil society bodies. Measures which increase transparency and counter tax avoidance, for example, through inappropriate transfer pricing, are to be welcomed. However, it is imperative that the new rules are balanced and practical, and do not impose an inappropriate level of costs and additional compliance burdens on businesses.

Looking ahead
Commentary

2014 National Budget

Appraisal, monitoring and delivery of Government projects is critical

Summary

Two years after assuming office, the Government has made some positive steps towards meeting its campaign promises, most notably through the increase in minimum wages in 2012, above inflation annual increases to the minimum tax threshold, the creation of new jobs and the initiation of infrastructure development projects.

Whilst a significant budget deficit has arisen this year due to unplanned expenditure the Government has announced tough decisions to reduce the fiscal deficit in the 2014 Budget. It is essential that this course is held in the years leading up to the next general election.

While the Government's proposed diversification and development infrastructure plans are commendable, it would appear there are constraints and challenges in implementing these projects in a prudent and effective manner. Echoing the sentiments of international agencies, the Government needs to strengthen its capacity to appraise, monitor and deliver on projects.

Overall, in our view the outlook for the Zambian economy remains positive and there is no reason why, with appropriate management, the challenges the Government faces cannot be overcome.

Looking ahead
The Economy

2014 National Budget

2013 GDP growth is expected to close at 6% from 7% in 2012

The theme of the 2014 National Budget is 'Moving forward to consolidate growth and social justice in peace and unity'. This theme signifies the Patriotic Front Government's commitment to continued economic growth in order to ensure job creation.

In keeping with the theme of the budget, the Government has expressed its commitment to ensure all Zambians benefit from the country's growth.

Whilst the 2013 Budget mainly focused on increasing employment levels and improving infrastructure, the 2014 Budget has laid an emphasis on the need for fiscal discipline and maintaining continued growth.

Total budget expenditure of K42.68 billion

The total 2014 budget is K42.68 billion (30.7% of GDP). This will be financed by K29.54 billion domestic revenue, grants of K 2.63 billion and through foreign and domestic borrowings of K10.51 billion.

The 2014 budget has outlined the following macroeconomic targets:

- Achieve real GDP growth of above 7%;
- Create at least 200,000 decent jobs;
- Attain year end inflation of no more than 6.5%;
- Increase international reserves to over 3 months of import cover;
- Maintain a fiscally sustainable public external debt level so that debt service and amortisation do not exceed 30 per cent of domestic revenues;
- Increase domestic revenue collections to over 21 per cent of GDP; and
- limit domestic borrowing to 2.5 per cent of GDP and contain the overall deficit to no more than 6.6 per cent of GDP.

Economic Performance

Gross Domestic Product

Over the last five years, Zambia has achieved a sustained high level of economic growth. In 2013, the growth in the domestic economy is estimated to close at 6% in comparison with projections of 5% and 2.9% growth rates for Sub-Saharan Africa and the global economy respectively.

This rate is slightly below last year's actual growth rate and the target set in the 2013 Budget, both of which were at 7%. The target was not achieved in 2013 mainly due to a 7% drop in copper prices and a decline in agricultural output. Despite reduction in copper prices, the mining sector continued to grow. The other key sectors driving the GDP growth are construction, manufacturing and transport and communication.

Looking ahead
The Economy

2014 National Budget

Inflation stood at 7% as at September 2013

Fiscal Deficit is projected to close at 8.5% of GDP

Inflation

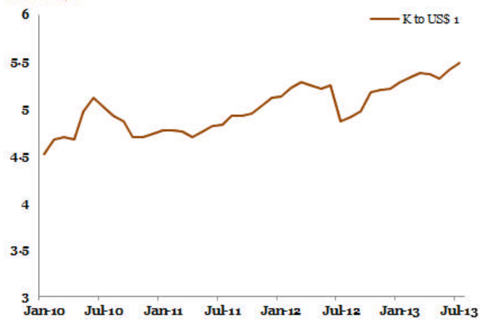
The inflation rate as at September 2013 was 7%. Government's target was to restrict inflation to not more than 6%. Price increases following the removal/reduction of subsidies on maize and fuel were the main contributors to the higher than target inflation rate. Increases in civil service salaries effected at the end of September are expected to cause further inflationary pressure.

Exchange rate

The Kwacha has stabilised against the United States Dollar and is currently trading at K 5.4 to 1 US$. This reflects the improved supply of foreign exchange during the third quarter of 2013. However, this represents a 5% depreciation from the start of the year.

In May 2013, Statutory Instrument 55, "Monitoring of Balance of Payments" was introduced. The law facilitates better monitoring of financial flows between Zambia and the rest of the world. The Government has reiterated that this Statutory Instrument does not signify the introduction of exchange controls.

K to US$1



Domestic and international borrowing

As part of its macroeconomic targets in the last budget, government set out to limit the fiscal deficit to 4.5% of GDP. However, the fiscal deficit is projected to close 2013 at 8.5% of GDP. This is the result of expenditure and investment in various government programmes exceeding the budget targets and ZRA tax collections falling below expectations.

Government's external debt stood at US$3.13 billion as at the end of September 2013 compared to US$3.08 billion at the end of September 2012. The country's domestic debt stood at K18.52 billion compared to K15.12 billion at the end of 2012.

Looking ahead
The Economy

2014 National Budget

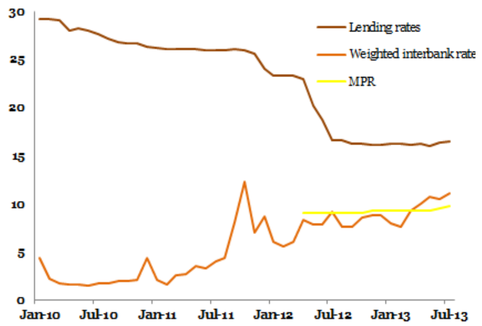
Monetary policy rate increased from 9.25% to 9.75% in September 2012

Interest rate

In 2012, the government introduced a monetary policy rate which is currently at 9.75% compared to 9.25% in September 2012. The increase in the rate was considered necessary to mitigate inflationary pressure.

With effect from 1 January 2013, the Government capped the margins above the policy rate at which financial institutions can charge interest. Average bank rates of 16.25% as at September 2013 were relatively consistent with those as at September 2012. Government still believes that these rates are unacceptably high.

Interest rates %



Significant regulatory policy changes and other developments

Amongst the significant changes in the year was the revision in the minimum capital required by Banks (which has been postponed to December 2013).

The Zambian currency was rebased with effect from 1 January 2013. As at the end of September, 97% of the old currency had been withdrawn from circulation.

In April 2013, government removed the subsidies on maize, fuel and fertiliser. These were considered ineffective because they were not well targeted to the most vulnerable members of the society.

Looking ahead
The Economy

2014 National Budget

Copper production in 2013 is expected to exceed 2012 production levels

Infrastructure development is key to unlocking Zambia's tourism potential

Sector Analysis

Mining

The performance of the sector has remained positive and accounted for approximately 78% of export earnings.

The mining sector has attracted investment in excess of US$ 8 billion since 2000 creating 74,000 jobs by 2012. Copper production has been increasing since 2000 with the sector recording an output of over 800,000 tonnes in 2012. On account of new mining projects under implementation, copper production is projected to reach 1.5 million tonnes by the 2015.

An increase in output is planned as a result of improved mining production techniques and significant investment on existing mines. The opening of new mines such as Lubambe and Kalumbila as well as the ramping up of production at Mulyashi copper mine will also contribute.

In 2013, local auctioning of gemstones commenced with the government encouraging the initiative and urging small scale gemstone miners to use this market to get better value for their gemstones. The Government considers that Local auctioning will improve transparency.

Tourism

Tourism is a priority sector. The government's national tourism policies have promoted private sector-driven tourism which has seen an increase in tourist arrivals into the country.

In August 2013, Zambia and Zimbabwe successfully co-hosted the 19th Session of the UNWTO General Assembly. The government invested in expansion of the Harry Mwaanga

Nkumbula International Airport as well as road infrastructure and social amenities in Livingstone.

Further infrastructure investment to support development of the tourism sector is expected.

Manufacturing

The manufacturing sector accounted for about 11% of the country's Gross Domestic Product (GDP) in 2012. The sector has been growing at an average annual growth rate of 3% in the last five years and is expected to grow by 4.3% in 2014.

In 2013, the government allocated K107 million to the Development Bank of Zambia to support the financing needs of the industry with focus on Small and Medium Enterprises.

The government will continue with development of the Multi -Facility Economic Zones and Industrial Parks such as Lusaka, Chambishi and Ndola which are intended to create over 110,000 jobs.

Agriculture

The agricultural contribution to GDP was approximately 20% in 2012 and has been growing at an average growth rate of 7.7%. However, growth in 2013 was disappointing and contributed to a reduction in the overall level of GDP growth.

The total allocation to the sector is 7.2% of the 2014 budget. The government's focus is on diversifying the agricultural sector and also supporting small scale farmers through the Farmer Input Support Scheme.

Looking ahead
The Economy

2014 National Budget

Over 44,000 jobs expected to be created through the Link Zambia 8,000 project and the Pave Zambia 2000

Recapitalisation of Zambia Railways and Tazara railway system

Upgrade of the Harry Mwaanga Nkumbula International Airport

From 2014, the operations of the Food Reserve Agency will be funded directly from the budget and the government has assumed the Agency's outstanding obligations to commercial banks.

The government has allocated K1 billion to secure and maintain strategic food reserves.

The government has revamped the operations of Nitrogen Chemicals to supply fertiliser to the agriculture sector.

Energy Infrastructure

Growth in demand for electricity has continued to be a major challenge as demand outstrips power supply due to the expansion of the economy especially in the mining sector.

The growth in demand is estimated to be between 150 MW and 200MW per annum whilst demand for electricity is likely to increase to 2,400 MW by 2015. This is projected to create a deficit of more than 550MW based on current generation capacity.

Part of the Eurobond was injected into the energy sector, with US$255 million channeled to the Kafue Gorge Hydro power project as well as further interest in Zesco's distribution network.

Major electricity projects underway include:

- Kariba North Bank Extension (360 MW) to be completed by 2013
- Kafue Gorge Lower Hydro Project (750 MW) to be completed by 2019
- Itezhi-Tezhi Hydro Power Project (120 MW) to be completed by 2015.

Water supply and Sanitation

Government allocated K 417 million towards the provision of safe water and sanitation.

Much of the allocation will go towards increasing the access to clean and safe drinking water for both urban and rural populations.

Transport and communication

The government has continued with its commitment to investment in the Transport and Communication. K6.07 billion has been allocated to the sector.

In 2013, the Link Zambia 8000 and the Pave Zambia projects were launched with 44,000 jobs expected to be created. In 2014, Government has proposed to spend K5.13 billion towards these projects.

Zambia Railways Limited received K618.5 million from the Eurobond proceeds to go towards the rehabilitation of the rail system. A further K339.8 million has been allocated to the recapitalisation of Zambia Rail system and the Tanzania Railway Authority (Tazara).

Harry Mwaanga Nkumbula International Airport in Ndola has been upgraded to international standards while the upgrade of the Kenneth Kaunda, Mfuwe and Simon Mwansa Kapwepwe International airports and provincial aerodromes has been planned.

With respect to telecommunications, the government has proposed to increase excise duty on airtime from 10 per cent to 15 per cent. This will increase the cost of communication and ultimately lead to an increase in the cost of doing business.

Increased allocation to the education sector representing 20% of the total budget

Health

With the setting up of the Zambia National Health Strategic Plan in 2012, the health sector continued to register growth. Key milestones in the Health sector included the following:

- Rehabilitation of 137 health facilities countrywide. In addition, the rehabilitation works for 110 health facilities has commenced.
- Launch of the construction of the 21 new district hospitals and 114 housing units countrywide.
- Signing of contracts for the construction of 650 health posts across the country.
- Construction of a 220 bed facility at the Cancer Diseases Hospital that is expected to be completed by the end of 2013.

In the current budget, government has allocated 9.9% or K4.2 billion of the national Budget compared to K3.6 billion allocated in 2012. Of this, K245 million of the budget will be spent on construction and rehabilitation of district hospitals in 2014.

Local Government and Housing/Decentralisation

For 2014, the government has increased grant allocations to local authorities by 25% from K498 million to K 627 million. Further, the government has undertaken to perform a comprehensive study to overhaul the fiscal structure which will guide financial allocations to councils.

The above measures are intended to ensure that Government's commitment towards decentralisation policy, which has seen the creation of 30 new districts in the past two years, is succesful in the long run.

Education and skills Development

The Government has, allocated 20% or K8.61 billion of the total national budget. This represents a 53% increase from 2012 to the education sector.

Of this, K1.28 billion will go towards the infrastructure development such as construction of primary, secondary and tertiary schools.

Development of the country's higher education system remains high on the Government's agenda. Construction of two more universities, in Luapula and Western Provinces, three new teacher training colleges and five training institutions across the country has commenced.

The building of school infrastructure in rural areas has been accompanied by the construction of staff housing units. The above measures are intended to contribute to an increase in the standards and quality of the country's skills base which is needed to support increased economic activity.

Looking ahead
Direct Taxes

2014 National Budget

Personal Income Tax

Increase in income tax bands

2014		2013	
Income per annum	**Tax rate**	**Income per annum**	**Tax rate**
First K36,000	0%	First K26,400	0%
From K36,001 to K45,600	25%	From K26,401 to K36,000	25%
From K45,601 to K70,800	30%	From K36,001 to K70,800	30%
From 70,801	35%	From 70,801	35%

Tax free income increased by 36%

No increase in the level at which the top rate of 35% applies

These reforms provide a proportionately higher increase in the take home pay of lower paid workers

Changes in the annual tax bands

The annual threshold of exempt income has increased from K26,400 to K36,000. This represents an increase of 36%. Thus, an individual earning up to K36,000 will not be liable to any income tax on their emoluments.

The increase in the exemption threshold has been partially compensated by a reduction in the income tax band which is subject to tax at 30%. The income band for the 30% tax rate has been reduced from K34,800 to K25, 200.

The reduction in tax from the proposed measure to a taxpayer earning chargeable emoluments equal to the new annual tax free limit of K36,000 will be K2,400.

An individual earning K45,600 at the top of the new 25% band will receive an additional K480 each year.

This means that the maximum annual benefit to any individual taxpayer is K2,880.

Therefore, these measures will provide a greater increase to the take home pay of lower paid workers as a percentage of total income. This should have a positive impact on the economy by increasing consumer spending power.

However, the level at which the top 35% rate commences is unchanged. Therefore, the failure to increase other tax bands in line with inflation will erode the earnings of the higher paid.

Looking ahead
Direct Taxes

2014 National Budget

Introduction of withholding tax on winnings from gambling activities

Increase in withholding tax rates on payments to non-residents for commission, public entertainment fees and non-resident haulage and construction contractors

Reduction in withholding tax rates from 15% to 10% on rental income. This will now be the final tax but landlords with relatively low turnover will no longer be able to apply turnover tax at a lower rate

Withholding Taxes

Profits distributed by a Zambian branch

The Minister proposes to introduce withholding tax on profits distributed by Zambian branches of foreign companies.

Currently distributions by branches do not attract withholding tax (WHT).

This measure will place foreign direct investment in branches and Zambian companies in essentially the same position for tax purposes. In the case of companies, WHT on the distribution of profits is triggered by the declaration of dividends. It is not clear however what the trigger for WHT to be paid by branches will be.

Payments to Non Residents

The Minister proposes to increase withholding tax rates on payments of commission, public entertainment and haulage and construction fees to non-resident contractors / service providers from 15% to 20%.

This measure seeks to align the withholding tax rates applied to payments for management and consultancy fees and royalties to non-residents.

Rental Income

The Minister proposes to reduce the withholding tax rate on rental income from 15% to 10% which will be the final tax.

Landlords will no longer be able to apply turnover tax instead of income tax. Under the current system a landlord whose rental income falls below the current turnover tax threshold of K800,000 effectively pays turnover tax at 3%. Therefore, such landlords could face an effective increase in tax of up to 7%.

However a commercial landlord who currently pays tax at the top marginal rate of 35% on rental profits will benefit with a reduction in effective tax rate by up to 25%.

Interest payments made by Property Loan Stock Company

Interest payments arising to Zambia resident investors on loans or debentures of a property linked unit paid to Zambia investors in any property Loan Stock Company listed on the Lusaka Stock Exchange will be exempt from withholding tax.

This measure is intended to increase local investment and stimulate the Zambian listed property sector. If successful, this should create additional employment opportunities for local people in the construction sector.

Winnings from gambling activities

The Minister proposes to introduce withholding tax on winnings from gaming, lotteries and betting at a rate of 20% as a final tax.

The above measure has been introduced to broaden the tax base because gambling winnings are currently free of tax.

This measure is likely to increase the administrative burden on businesses within the gambling sector

Looking ahead
Direct Taxes

2014 National Budget

Transfer Pricing documentation rules to be introduced

Commissioner General granted powers to access information held by legal practitioners and accountants

Tightening of transfer pricing rules reflects an increasing focus on the tax structures of multinational groups in Zambia and on a worldwide basis

House Keeping Measures

Amendment to redefine income arising from share options

We understand that this measure will provide specific rules for the taxation of employee share option schemes.

The current provisions included in the Income Tax Act only address the treatment of ZRA approved share options schemes. This measure is intended to provide better clarity on the tax treatment of employee benefits arising from unapproved share option schemes.

Amendment to the Pay As You Earn (PAYE) Regulations

The following measures are proposed in respect of PAYE**:**

- The requirement to submit annual employer's PAYE return is to be removed.

  Currently, all employers are required to file both monthly PAYE returns together with an annual PAYE return (Form P18) after the end of the tax charge year. This measure should result in a reduction in the administrative burden for businesses.

The Minister has proposed:

- The introduction of a requirement to remit tax on a monthly basis by Zambian citizens who are employed by institutions that fall under the category of Diplomatic Immunities and Privileges Act, such as the United Nations and who are required to self-account for tax on their emoluments.

  Currently, such individuals account for tax on a quarterly basis. This amendment will result in additional administrative burden and accelerate the payment of tax for those concerned.

- Enable a taxpaying agent acting on behalf of a principal to sign the monthly PAYE returns. Currently, the PAYE returns can only be signed by the principal.

Anti-Avoidance provisions relating to the Transfer Pricing Regulations

Measures are to be introduced to strengthen existing anti-avoidance provisions and to enable the Minister of Finance to prescribe Transfer Pricing documentation rules.

ZRA information gathering powers

It is proposed that the Commissioner General of the ZRA will be granted additional powers to access any type of information required for tax purposes held by legal practitioners, accountants and financial institutions.

Effective date

All of the above measures will take effect from 1 January 2014

Property Transfer Tax

The Minister proposes to increase Property Transfer Tax (PTT) from 5% to 10%.

This measure will impact both businesses and individuals as the burden of tax will double on the transfer of any land, property, and shares.

Property Transfer Tax on land property and shares will double to 10%

Unlike capital gains taxation PTT is payable by reference to the open market value or nominal value of the assets, whichever is greater. Where assets subject to PTT are purchased and sold frequently within a short period of time, the transactions will result in a high effective tax rate as there is no deduction for the purchase price and transaction costs.

This could reduce returns for dealers that trade in private property and unlisted equity stocks.

Effective date

The above measure will take effect from 1 January 2014.

Looking ahead
Indirect Taxes

2014 National Budget

VAT

Change of category for some goods and services from zero rated to standard rated category eg VAT at16% on tourist activities

Standard rating of goods and services that were previously Zero-rated

The Minister proposes to expand the VAT base by reclassifying supplies of the following categories of zero rated goods and services to the standard - rated category:

- Ancillary services provided at a port of export;
- Green gel;
- All distinct tourism services e.g. bungee jumping, game viewing; and
- Pre-booked tourism tour packages (unless booked before 1 January 2014).

Enhancement of the ZRAs powers to collect VAT

Standard rating ancillary services provided at the port of export could increase the cost of exports from Zambia thereby making our exports less competitive.

Likewise, standard rating tourist activities will increase costs for individual tourists . This could make Zambia a less attractive tourist destination.

Zero rating of Governments contribution to co-financed donor projects

Housekeeping Measures

Zero-rating of Government contributions on co-financed projects

Currently only purchases paid for through the donor funded portion of any qualifying projects is zero-rated for VAT purposes. This measure will extend the zero-rating to cover the Government's portion of co-financed projects.

Procedural measures

There are a number of proposed amendments which when taken together will enhance ZRA's authority to enforce collection. These include amendments:

- To provide for tax and interest to be recovered upon determination of the findings by ZRA which are subject to a review before the expiry of the review period of 30 days;
- To empower the Commissioner General to place a caveat on land until taxes are paid; and
- To provide for off-setting of VAT refunds against liabilities due under other taxes.

Other measures

The Minister proposes a number of other technical measures including aligning the exemption of VAT on the importation of goods where rebates are provided for under the Customs and Excise Regulations.

Effective date

All of the above measures will take effect on 1 January 2014.

Customs and Excise

Increase of excise duty on talk time from 10% to 15%

Increase of excise duty on clear beer made from barley and sorghum

0.2% change on value of money transfers

Excise Duty on Airtime

The Minister proposes to increase excise duty on airtime from 10% to 15%.

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

The measure is intended to raise additional tax revenues.

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

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

Excise Duty on clear beer

The Minister proposes to increase excise duty on clear beer from 40% to 60%. This proposed change will impact clear beer made from barley and sorghum.

The duty had previously been reduced to 40% in 2010 to encourage production of barley and sorghum to improve linkages between the farmer and manufacturers of beer with a view to increasing employment for local farmers.

If customers are sensitive to price increases in this sector, then the resulting reduction in demand for clear beer could negatively impact the Zambian farming and brewing sectors.

Levy on money transfers

The Minister proposes to introduce a charge of 0.2% of the value of money transferred to a recipient within or outside Zambia.

As the provision of money transfer services is a regulated activity under the Banking and Financial Services Act, this levy is likely to apply to money transfers facilitated by banks, financial institutions, mobile money service providers and other organisations that are permitted under this Act to facilitate the transfer of money.

The increase in cost of money transfers will increase the cost of doing business.

Removal of customs duty on crude oil

The Minister proposes that Customs duty be removed on the importation of crude oil.

The principle objective of this measure is to reduce the cost of petroleum products. This will only be effective if these savings are passed down the supply chain to the final consumer.

Looking ahead
Indirect Taxes

2014 National Budget

15% customs duty on copper powder and flakes

Export duty on semi processed metals and base metals

Change in Import Duty incentive regime for new ZDA Investment Licence holders

The Minister proposes to restrict the import duty incentives previously available to all ZDA investment licence holders. Please see ZDA section for more details.

Customs duty on copper blister, copper powder and flakes, lamellar structures and flakes

The Minister proposes to introduce customs duty on copper blister, copper flakes and powder, lamellar structures and flakes at a rate of 15%.

Export duty on semi-processed metals and base metals

The Minister also proposes to introduce export duty of 10% on semi-processed metals and base metals. The primary objective of this is to encourage local value addition and consequently the creation of jobs in Zambia.

However, this may result in an increased cost of mining production in the short term if there is insufficient local capacity to process base metals.

Procedural measures

The Minister has proposed a number of measures providing the ZRA with enhanced powers to facilitate efficient and prompt accounting of revenue to enhance compliance among clearing agents and taxpayers for goods held in bond. These amendments include a reduction in:

- the number of days within which goods Removed in Bond (RIB) may be entered for consumption, warehousing or re-export from 30 to 15 days;
- the period within which goods may be "entered" from 30 to 15 days;
- the period after which warehoused goods can become liable to seizure on expiry of warehousing period from 30 to 15 days; and
- the period for the "Notice of Seizure" from 30 to 15 days and the period of forfeiture from the date of publication in the Gazette from 45 to 30 days.

The ZRA's powers to amend excise duty assessments have also been increased.

Other measures

The Minister has proposed a number of technical measures to facilitate the electronic lodgement of customs documentation.

These measures should increase efficiencies in the completion of customs procedures and result in relative reduction in the cost of doing business.

The Minister proposes to modify the basis of calculating duty for certain goods including:

- Carrier bags; and
- Selected petroleum products.

The Minister also proposes to update the list of approved organizations that provide development assistance to the Government.

Effective Date

All of the above will be effective from 1 January 2014.

Incentives under the Zambia Development Agency Act

Investors who do not fulfil their pledges to ZDA to face sanctions or the withdrawal of fiscal benefits

The development of MFEZs, Industrial Parks critical to Governments plans for job creation

Streamlining of Tax Incentives

The Minister proposes to amend tax incentives which are available to investors, both foreign and local, who pledge to invest US$500,000 or more in a Priority Sector or Product under the Zambia Development Agency Act (“ZDA Act”).

Currently, the following investment incentives are available to holders of investment licences, which operate in qualifying sectors:

- Zero percent tax rate on dividends for 5 years from the date of commencement of operations of the approved investment;
- Zero percent tax on profits for 5 years from the year of commencement of operations of the approved investment. For years 6 to 8 only 50 percent of profits are taxable and in years 9 and 10 only 75 percent of profits are taxable;
- Zero percent import duty rate on raw materials, capital goods, machinery including trucks and specialized motor vehicles for five years**;** and
- Deferment of VAT on machinery and equipment including trucks and specialized motor vehicles.

The Minister noted that Zambia has one of the most generous tax incentive regimes in the region. However, according to some studies certain investors have abused the incentives.

In light of the apparent abuse of incentives, the Minister proposes sanctions, which may include revocation of investment licences for those investors that violate the provisions under which the incentives were granted.

The key considerations under which investment incentives are granted include:

1. The extent to which the proposed investment will lead to creation of employment opportunities and development of human resources;
2. The degree to which the project is export oriented;
3. The impact the proposed investment is likely to have on the environment; and
4. The possibility of technology transfer.

Currently the Commissioner-General of the ZRA is empowered to withdraw incentives granted for tax on profits if a business enterprise fails or neglects to fulfil its **pledge for employment of local citizens.**

It would appear that the proposed measures may extend the powers of the Commissioner-General of ZRA to all investment pledges. Accordingly, if any of the investment pledges are not met, then he may be able to withdraw the tax concessions granted under then ZDA Act. In addition the ZDA could also revoke the investment licence.

Withdrawal of import duty exemptions for many new investment licence holders

Priority sectors to be aligned to the SNDP

Alignment of Priory Sectors to the Revised Sixth National Development Plan ("SNDP")

The Minister proposes to align the sectors declared as "Priority" under the ZDA Act to the SNDP.

The ZDA Act declares the following broad categories as Priority Sectors:

1. Agriculture;
2. Education and skills training;
3. Energy;
4. Health;
5. Information and Communication Technology;
6. Manufacturing and processing; and
7. Tourism.

The SNDP considers the following as priority sectors for Government:

1. Agriculture, livestock and fisheries
2. Education and skills development;
3. Energy;
4. Health;
5. Infrastructure;
6. Tourism including Arts and Culture; and
7. Water and sanitation.

The alignment may result in the inclusion of infrastructure development and water and sanitation as Priority Sectors under the ZDA Act.

Import duty exemptions

The Minister proposes to remove the granting of import duty exemptions accessed through the ZDA to any new holders of investment licences. This measure will be effective from midnight 11 October 2013. However, the removal of import duty exemptions does not apply to licence holders in Multi-Facility Economic Zones ("MFEZs), Industrial Parks and business enterprises in rural areas.

Under the current investment incentives, investors are granted an exemption on import duty for a period of five years on importation of raw materials, capital goods, machinery including trucks and specialized motor vehicles for five years.

This measure will increase the cost of investment projects in Priority Sectors where duty will now apply on certain items at rates of up to twenty five percent.

Housekeeping measures

We anticipate that amendments will be made to the Customs and Excise Act and Income Tax Act to align the provisions of tax incentives accessed through the ZDA with the SNDP.

Looking ahead
Zambia Tax Data Card

2014 National Budget

Corporate tax rates

	2014	2013
Standard rate	35%	35%
Banks	35%	35%
Telecommunication companies		
Income not exceeding K250,000	35%	35%
Income exceeding K250,000	40%	40%
Farming	10%	10%
Income earned from organic fertilizer	15%	15%
Export of non-traditional products*	15%	15%
Foreign earnings of Sun International Limited	15%	15%
All other companies except mining companies	35%	35%
New listings on LuSE**	2% discount	2% discount
New listings on LuSE> 33% shares taken up by Zambians	2% discount	7% discount
Turnover tax levied on business with turnover below K800,000 (excludes income earned from consultancy services, property rental, mining and VAT registered businesses)	3%	3%
Advanced Income Tax	6%	6%
Capital deductions* **		
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%
Motor vehicles		
Commercial	25%	25%
Non-commercial	20%	20%
Farming		
Farm improvement/ Farm works allowance	100%	100%

Carry forward of Trading losses	No. of years	No. of years
Non - mining companies	5	5
Hydro and thermo power generation companies	10	10

* With the exception of minerals, electricity, services and cotton lint exported without an export permit from Minister of Commerce.
** Discount applicable to corporate tax rates and only available for the first year.
*** Capital allowances are computed on a straight line basis.
**** Investment and Initial allowance granted in the charge year in which the industrial building has been put into use.

Mining Companies - Income Tax

	2014	2013
Company rate		
Basic rate	30%	30%
Variable profit tax*	Up to 15%	Up to 15%
Capital deductions		
Capital allowance on capital equipment	25%	25%
Trading losses		
Carry forward of trading losses	No. of years	No. of years
Konkola Copper Mines Plc	20	20
From mining operations	10	10
Prospecting and exploration companies	5	5

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

Payments made by companies carrying on mining operations

	Resident	Non Resident
Dividend	0%	0%
Interest to any lender	15%	15%
Management fees to Shareholders	0%	20%
Royalties	15%	20%
Haulage and Construction Services	n/a	20%
Commissions	n/a	20%

Tax Treaties

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

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

Income Tax Individuals

2013
Monthly income bands

	Income from K	**Income to K**	**Tax rate %**	**Tax on band (maximum) K**	**Cumulative tax on income (maximum) K**
First	0	2,200	0	0	0
Next	2,201	3,000	25	200	200
Next	3,001	5,900	30	870	1,070
Over	5,900		35		

2014
Monthly income bands

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

Housing benefit taxable in the hands of the employer

Rate at which employees annual taxable emoluments disallowed 30%

Tax on car benefit is payable by the employer at the corporate tax rate based on the following scale charges:

Engine size < 1,800 cc:	K9,000 p.a.
Engine size > 1,800 cc, < 2,800 cc:	K15,000 p.a.
Engine size > 2,800 cc:	K20,000 p.a.

Dividends from Lusaka Stock Exchange

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

Withholding Tax

	Resident	Non Resident
Dividend	15%	15%
Interest	15%	15% / 20% *
Interest from a LuSE listed Property Loan Stock Company	0%	15%
Management or consultancy fee	0%	20 %
Royalties	15%	20%
Rent from a source within the Republic	10%	10%
Commissions	15%	20%
Non-resident construction and haulage contractor	n/a	20%
Non-resident entertainers/sports persons fees	n/a	20%

* withholding tax at 20% will apply to interest payments made to a non-resident contractor by a person developing a Multi Facility Economic Zone (MFEZ) or an Industrial Park as well as any person operating a MFEZ or Industrial Park

VAT

Taxable supplies- rate

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

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

Registration

Threshold	K 800,000 p.a.

Payment- due date

Supply of taxable goods & services	21 days following the end of the VAT accounting period*

Repayment- due date

Standard	30 days after submission of a VAT refund claim

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

Property Transfer Tax (PTT)*	**2014**	**2013**
Land (including buildings)	10%	5%
Transfer or sale of mining right	10%	10%
Shares not listed on the LUSE	0%	0%

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

Concessions for Priority Sectors

Incentives for companies in Priority Sectors/Multi-facility Economic Zones (MFEZ) or an Industrial Park declared under the Zambia Development Agency Act:

- No tax on profits for a five year period from the date of commencement of business operations.
- 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 – restricted to licences granted before 12 October 2013 and investors in MFEZs, Industrial Parks and business enterprises in rural areas.
- 100% improvement allowance for tax purposes on capital expenditure for improvement and upgrading of infrastructure.
- 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, Lumwana and the Sub-Saharan Gemstones exchange in Ndola.

Carbon Tax

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

Note:

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

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

Deadlines and Penalties

2014 Deadlines	Penalty	Interest
Income Tax- Companies ***Provisional tax*** Return deadlines: 31 March 2014, 30 June 2014, 30 September 2014 & 31 December 2014 (where applicable) Payment deadlines: Within 14 days following the return date *Note:* *2/3 of the total tax liability payable by the final quarter* ***Final tax return & payment*** Deadline: 30 June 2015	Provisional tax: Late filing of return: K360 per month or part month Late payment of tax: 5% per month or part month Underestimation of tax: 25% Late filing of return: K360 per month or part month Late payment of tax: 5% per month or part month	N/A Late payment: 2% + DR* N/A N/A Late payment: 2% + DR*
Income Tax- Individuals ***Final tax return & payment*** Deadline: 30 June 2014	Late payment of tax: 5% per month or part month Late filing of return: K180 per month or part month	Late payment: 2% + DR* N/A
Withholding Tax (WHT) Filing & payment deadlines: Within 14 days after the end of the month of accrual / payment **Payroll (PAYE)** Filing & payment deadlines: Within 14 days after the end of the month of accrual / payment **VAT** Filing & payment deadlines: 21 days after the end of the accounting period*	WHT late payment of tax: 5% per month or part month WHT late filing of return: K360 per month or part month PAYE late payment of tax: 5% per month or part month VAT late filing of return: Daily penalty- higher of K180 and 0.5% x tax payable VAT late payment of tax: Daily penalty- 0.5% x tax payable	Late payment: 2% + DR* N/A Late payment: 2% + DR* N/A Late payment: 2% + DR

Key

*DR= Bank of Zambia discount rate

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

Looking ahead
Notes

Looking ahead
Notes

2014 National Budget

The information on this budget bulletin and tax data card is based on the budget pronouncements of 11 October 2013. The specific legislative provisions to effect the budget pronouncements are subject to enactment by Parliament. We therefore caution that the information highlighted in this bulletin and data card may be subject to change. Accordingly, you should confirm the current tax position as necessary.

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