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Zambia at 50 Cracking the figures

2015 Budgetary changes

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2015 National Budget

Commentary

Growth rates well above global and sub-Saharan African averages

As Zambia celebrates 50 years of independence, there is much focus on whether the economy has made sufficient strides to meaningfully improve the lives of its citizens.

This year's Golden Jubilee Budget theme, **Celebrating our Golden Jubilee as One Zambia One Nation by Making Economic Independence a Reality for All**, looks to address this by focusing on economic developments that will facilitate prosperity for all Zambians.

The Patriotic Front government has in its last three Budgets pledged to deliver on its election promises to increase employment, provide social infrastructure development and ensure equitable distribution of Zambia's mineral wealth.

In his speech, the Minister of Finance acknowledges that Zambia has various developmental challenges to overcome as it enters its sixth decade. Poverty levels stand at 60%, while a very young population is putting increasing pressure on a limited job market.

The economy also faces headwinds in the form of a subdued global economy, and lower copper and agricultural commodity prices. Copper prices were on average 10% lower at US\$7,097 per tonne during the first nine months of 2014 compared to 2013.

Growth on track

Despite this, Zambia's gross domestic product (GDP) is expected to grow more than 6.5% in 2014. This is broadly in line with last year's Budget projections, and comfortably ahead of projected global and sub-Saharan growth rates of 3.3% and 5.1% respectively.

The Government says this strong economic growth is due to a good 2013/2014 harvest, increased

electricity generation, private and public infrastructure investment, and growth in the manufacturing, transport and communications sectors.

In 2015, real GDP growth of 7% will be targeted. However, the Minister notes that Zambia needs double figure growth if it is to eliminate poverty.

Currency weakness, energy costs drive inflation

Inflation in the first nine months of 2014 stands at 7.8%, somewhat above the Government's target for the year of less than 6.5%. The Government is targeting inflation of less than 7% by the end of 2015.

This higher-than-projected inflation was attributed to the depreciation in the value of the Kwacha, and the effect of upward adjustments in fuel prices (following the removal of the fuel subsidy in early 2013) and electricity tariffs.

A rapid depreciation in the Kwacha during the first half of 2014 saw the currency fall to a low of K7 to the US dollar in May. The Government said this drop was partly due to the reduction in the supply of foreign exchange to the market, particularly from the mining sector, and subsequent speculative behavior. The Kwacha has since stabilised at around K6.2 but remains significantly lower than recent historical averages.

It is possible that practical problems brought about by the introduction of exchange monitoring regulation Statutory Instrument 55 in mid-2013 along with the Statutory Instrument's impact on investor confidence may have also contributed to liquidity issues. Exchange monitoring and local currency regulations (Statutory Instrument 33) were removed earlier this year in a welcome step towards

Inflation remains within single digits

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Budget deficit reduces to 5.5% of GDP but remains above 2% target

2014 Government expenditure target of K47 billion

rebuilding investor confidence. It is hoped that more extensive dialogue with key stakeholders on future initiatives will ensure regulatory developments are better implemented.

Interest rates brought under control

The lack of supply of forex prompted a temporary rise in interest rates during the middle of the year, which constrained access to credit. The Monetary Policy Rate increased sharply from 9.75% in December 2013 to 12% in April 2014. Interest rates on interbank overnight lending also rose significantly, possibly reflecting a loss of confidence in the Kwacha.

The Bank of Zambia has since eased liquidity conditions, prompting interest rates to fall. It is hoped banks will pass on these benefits to borrowers in the form of lower lending rates to encourage growth.

Job creation

The Government expects to have created around 120,000 new formal sector jobs in 2014. This is below last year's Budget projection of 200,000 new jobs, but double the 58,000 formal sector jobs generated in the first nine months of 2013.

In addition, the Government noted that thousands of informal jobs have also been created during the year, although it did not give specific figures.

However, the 120,000 new jobs are unlikely to be enough to provide employment for all the young people entering the job market each year.

Fiscal outlook

The Budget deficit for 2014 is forecast to be below last year's forecast of 5.5 % of GDP, a reduction on the 2013

outturn of 6.5%. This is particularly welcome given that the IMF noted in January that "the current fiscal stance is clearly unsustainable".

In order to support the targeted deficit reduction to 4.6% of GDP in 2015 and, ultimately, a sustainable deficit of around 2%, it has been necessary for the Minister of Finance to prescribe unpleasant medicine for both spending and taxation.

In terms of spending, the Budget proposes an overall increase in expenditure of 9.3% to K46.7 billion. It will be essential for actual spending increases to remain within single digits – i.e. broadly in line with inflation – if the Government's deficit reduction policy is to remain on track in 2015. This target will require discipline with respect to the Minister's 2014 commitment to "contain the size of the public sector wage bill".

It should also be pointed out that the Government's second Eurobond issue will cost Government substantially more in repayments over the next 10 years than the Eurobond issued in 2012. The interest rate on the US\$1 billion Eurobond, issued in April this year, is 8.5% per annum compared to 5% for the US\$750 million Eurobond issued in 2012. We would welcome further detail on how the latest Eurobond will be spent to ensure it is invested in projects that will enhance economic growth.

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Progress in transport and energy sectors

Infrastructure and social investment

Unfortunately, fiscal discipline also inevitably means that desirable investment in social and economic infrastructure will need to be rolled out more slowly than hoped. However, the Government can point to tangible progress in a number of key investment areas.

The roads programme is now delivering new and rehabilitated highways across the country. In time, this should provide a domestic stimulus for growth as trade within Zambia is facilitated.

However, while there has been substantial funding given to the railway system, it is not yet clear whether there is a sufficiently coherent and integrated strategy in place to meet objectives of increasing goods transit by rail in order to reduce heavy traffic on the roads, and lower transportation costs for imports and exports.

Zambia's energy shortfall should be reduced as 420 megawatts of capacity come on stream at the Itezhi-Tezhi hydro and Sinazongwe thermal generating facilities during 2015. Given the lack of scope for additional public sector investment, these private sector-led initiatives should be seen as a model for further private investment in the infrastructure sector.

The emphasis on investment in social sectors, including health and education, are to be welcomed. The planned increase in health service workers of over 2,000 staff in 2015 should represent a significant achievement.

The Government is correct to stress the importance of secondary and tertiary education, and we welcome further detail on steps to ensure that

more school leavers and graduates are properly equipped for the challenging demands of the workplace in the 21st century.

Tax policy

To move towards balancing the books, substantial tax rises are inevitable. Primarily, this is to be achieved through a freeze on the tax-free allowances for PAYE and an increase in direct taxation on the mining sector.

The absence of any increase in the tax-free allowance and other PAYE bands in line with inflation means that the real tax rates suffered by medium earners will rise significantly.

It would appear that the Minister has budgeted for a significant increase in PAYE collection on the back of this freeze, on the assumption that there will be an increase in jobs and wages.

However, it is unclear that this on its own can achieve the additional budgeted income from PAYE in 2015 of K7.5 billion, compared to K5.1 billion as projected in the previous Budget. It appears that an improvement in ZRA's capacity to bring additional workers out of the informal sector may be necessary to achieve this ambitious target of a year-on-year increase of 45.5%.

Freeze in PAYE tax free allowance will increase tax revenues

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Mineral royalty rates increased

Reform of the mining tax regime

Undoubtedly, the reform of mining taxation is a key measure. The increase in mineral royalty from 6% to 8% on underground mines and 20% on open pit mines is targeted to more than double annual collections to K5.9 billion. This is only partially offset by the elimination of revenues from corporate income tax following the abolition of profits-based taxes for mining companies.

Overall, it is estimated that the total direct tax contribution of the mining sector will increase from 9.5% of total Government spending to 12.7%.

Corporate income tax abolished on mining profits

There are two key questions as to whether this level of direct taxation upon the mines is sustainable in the medium term.

Firstly, the level of mineral royalty is undoubtedly high by global standards. Inevitably, the additional royalties will erode the returns from investment in the Zambian mining sector and there is a risk that this will reduce future investment in the sector.

Secondly, while the single tier of direct taxation has some benefits in terms of simplicity, there are tax policy downsides to removing any form of taxation on mining profits.

Since the royalty is applied to turnover rather than profits, there will no longer be any form of tax relief for mining costs. In our view, alternative incentives or relief for capital expenditure and major refurbishment costs in the mines should be introduced to safeguard the continued health of the cornerstone of Zambia's economy.

We welcome the Minister of Finance's desire to resolve concerns about the application of VAT Rule 18 expeditiously and amicably. A well-

designed tax system should not penalise taxpayers provided that they are able to verify the validity of the exports by other means.

Overall, the Government should be looking at working towards an optimal tax system that seeks to strike a balance between ensuring the greatest possible benefit for the public and, at the same time, encouraging quality, sustainable investment. A profit-based tax system takes into account the risks shouldered by investors, and can also be modified to allow for a fair and equitable distribution of profits between investors and Zambians.

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The Economy

2015 National Budget

‘Celebrating our Golden Jubilee as One Zambia One Nation by making economic independence a reality for all’; the theme of the 2015 National Budget that represents the aspiration of all Zambians. The nation is faced with formidable hurdles as it strives to create decent jobs and wealth for its citizens, 60% of whom live in poverty.

Whilst the 2014 Budget emphasised the need for fiscal discipline and maintaining growth, the 2015 Budget has focused on economic developments that will facilitate prosperity for all Zambians.

The total 2015 budget is K46.7 billion (25% of GDP). This will be financed by domestic revenue of K41.3 billion and foreign grants and financing of K5.4 billion.

| Indicator | 2014 Target | 2014 Projected |
|--------------------------------|---------------------------------|-----------------------------------|
| GDP growth | 7% | Higher than 6.5% |
| Job Creation | 200,000 | 120,000 |
| Increase International Reserve | \$2.7 billion or 3 months cover | \$3.6 billion or 3.6 months cover |
| Inflation rate | attain inflation of <6.5% | 7.8%* |
| Domestic Revenue as a % of GDP | >21% | 17.2% |
| Budget Deficit as a % of GDP | 6.6% | 5.5% |

*September 2014

The 2015 objectives are as follows:

- achieve a real GDP growth rate of above 7%;
- achieve an end of year inflation of no more than 7%;

- increase international reserves to at least 4 months of import cover;
- raise domestic revenue to at least 18.5% of GDP;
- contain domestic borrowing to no more than 2% of GDP;
- accelerate the diversification of the economy, and continue the drive to create decent jobs especially for the youth; and
- accelerate implementation of interventions in the health, education and water and sanitation sectors.

Total budgeted expenditure of K 46.7 billion.

GDP growth exceeds 6.5%

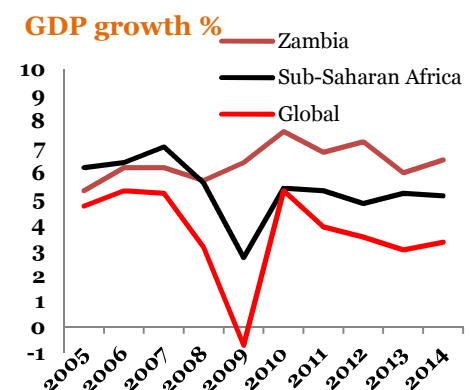
2014 budget deficit forecast at 5.5% of GDP

Economic Performance

Gross Domestic Product

Over the last five years, Zambia has sustained a favourable rate of economic growth. In 2014, a GDP growth of 6.5% is forecast. This is ahead of the projected global and sub-Saharan growth rates of 3.3% and 5.1% respectively.

The increase is driven by a favourable harvest in the 2013/2014 farming season, increased electricity generation, investments in private and public infrastructure and progress made in manufacturing as well as transport and communications.



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Kwacha stabilises after depreciating to an all time low during 2014

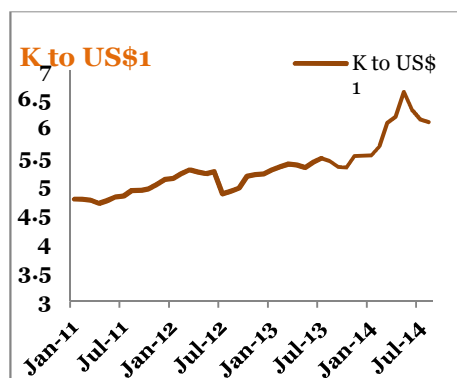
Exchange monitoring and local currency regulations were abolished in 2014

USD1 billion Eurobond issued successfully in April 2014

Exchange rate

During the year, the Kwacha experienced significant volatility, depreciating to an all-time low of K7 against the United States Dollar in May 2014. This was mainly attributed to a shortage of foreign exchange inflows in the mining sector and subsequent speculative behavior in the market. Government implemented various monetary policies to tighten liquidity, including adjusting the monetary policy rate and the statutory reserve requirement.

The Government also revoked, Statutory Instrument 55, the Bank of Zambia (Monitoring of Balance of Payments) Regulations and Statutory Instrument 33, the Bank of Zambia (Currency) Regulations. The measures introduced led to the exchange rate stabilising at an average of K6.2 per United States Dollar in the last half of the year.



Inflation

The inflation rate as at September 2014 was 7.8%, which is higher than the 7.1% attained in December 2013 and also above the target of 6.5% set in last year's Budget. The inflationary pressures during the year mostly arose from the depreciation of the Zambian Kwacha against the United States Dollar in the first half of 2014 and the

impact it had on fuel and other imports. The inflation rate is expected to be contained to single digit in line with the Government's macro-economic objective.

Domestic and international borrowing

As part of its macroeconomic targets in the last budget, government set out to limit the fiscal deficit to 6.6% of GDP. The deficit projected for 2014 is 5.5% of GDP. This is mainly as a result of an additional US\$1 billion Eurobond that was issued in April which is earmarked for various infrastructure projects.

At the end of September 2014, the country's external debt stood at US\$4.7 billion compared to US\$3.5 billion at December 2013 whilst domestic debt was K 21.9 billion and K19.7 billion at September 2014 and December 2013 respectively.

Interest rates

The tightening of the monetary policy by the Bank of Zambia in response to the volatility of the Kwacha during the year resulted in a sharp increase in the Monetary Policy Rate (MPR) from 9.75% in December 2013 to 12% in April 2014. The cap on the lending margin was also raised from 8.25 % in December 2013 to 16% in June 2014, resulting in a maximum lending rate of around 28%.

Overall, the average lending rates for 2014 is 22% compared to 16.27% for 2013, while the interbank overnight lending rate has averaged 12% in 2014, compared to 10% in 2013.

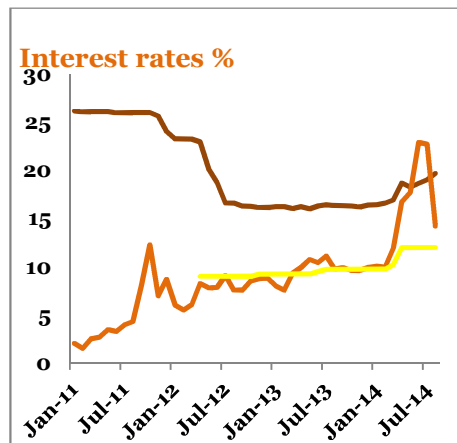
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Bank rates rose during 2014 but lending costs are now anticipated to fall



Overall 9% year on year increase in expenditure from 2014 to 2015 in Kwacha terms

Other effects of the tightening in the economy were noted in the increase in the Government treasury bills and bonds. Interest yields increased from an average of 11.38% in 2013 to around 14.11% as at August 2014, while yields on bonds rose from 15.27% in 2013 to 16.56% as at August 2014.

Having achieved relative stability in the foreign exchange markets at the start of the second half of 2014, the Bank of Zambia has since started easing liquidity conditions, and the benefits, including lower interest rates, are expected to be passed on to the consumer.

Comparison of 2015 vs 2014 Budgets

| | 2014 | 2015 | % change |
|---------------------------------|---------------|---------------|-----------|
| Revenue | | | |
| Income Tax | 10,780 | 11,793 | 9% |
| Value Added Tax | 8,099 | 6,577 | -19% |
| Mineral Royalty | 2186 | 5,937 | 172% |
| Customs and Excise | 5,577 | 6,975 | 25% |
| Non-Tax Revenues | 2,896 | 3,822 | 32% |
| Domestic Borrowing | 3,502 | 6,190 | 77% |
| Grants | 2,627 | 1,214 | -54% |
| Foreign Financing | 7,015 | 4,159 | -41% |
| Total Revenue | 42,682 | 46,667 | 9% |
| Expenditure | | | |
| General Public Services | 10,729 | 12,040 | 12% |
| Defense | 2,744 | 3,247 | 18% |
| Public Order & Safety | 2,122 | 2,180 | 3% |
| Economic Affairs | 11,943 | 12,747 | 7% |
| Environmental Protection | 165 | 175 | 6% |
| Housing and Community Amenities | 662 | 799 | 21% |
| Health | 4,228 | 4,464 | 6% |
| Recreation, Culture & Religion | 299 | 324 | 8% |
| Education | 8,607 | 9,433 | 10% |
| Social Protection | 1,183 | 1,258 | 6% |
| Total Expenditure | 42,682 | 46,667 | 9% |

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Harvest of 3.35 million metric tonnes recorded in the 2013/2014 farming season

Grain purchases by Food Reserve Agency to be limited to 500,000 metric tonnes.

Agriculture a major contributor to the 6.5% projected GDP for 2014

Expected benefits to the Tourism sector from the reduction in the aviation fuel.

Sector Analysis

Agriculture

While the country's main economic driver continues to be copper, the Government has continued to expand the agriculture sector.

The Government's strategic focus is to achieve food security and promote crop diversification, as well as increase productivity and value addition. In order to attain this, the Government has allocated about K2 billion to the sector.

Diversification from maize remains paramount in attaining a more inclusive growth and economic independence. In attaining this, government has allocated K254.9 million for farmers to purchase inputs using the E-Voucher system. This will allow farmers more flexibility in terms of supplier choice.

During the 2013/14 farming season, the country recorded a harvest of 3.35 million metric tonnes of maize, the highest tonnage ever achieved.

With a record bumper harvest achieved in the 2013/2014 farming season, the Government has allocated a further K1.1 billion to the Farmer Input Support Programme (FISP).

In the 2015 Budget, the Government has also moved to facilitate greater private sector participation. In this regard, a limit of 500,000 metric tonnes has been placed on the Food Reserve Agency (FRA) grain purchases.

Other areas of focus in the agriculture sector for the coming year include:

- Increasing the area of land under irrigation. K164.5 million has been earmarked for this activity;

- Promotion of livestock and fisheries. K307 million has been set aside for livestock disease control measures and aquaculture, amongst other activities;
- Provision of effective extension services that will equip the farmers with relevant technical knowledge;
- Continuation of the Nitrogen Chemicals of Zambia recapitalisation programme.

The above measures are expected to sustain and improve the 22.3% increase in agricultural yields and the 8.1% increase in the area planted during the 2013/2014 farming season.

Tourism

The Government has continued with efforts to build on the position recorded in 2013. Total arrivals for 2013 were 900,000 and it is expected that this number will be surpassed in 2014.

Government continues to improve infrastructure with planned construction of a new airport at Simon Mwansa Kapwepwe in Ndola. This is in addition to the on-going works to expand Kenneth Kaunda International Airport in Lusaka and plans to rehabilitate aerodromes across the country.

The Government now proposes to reduce costs in the aviation industry with a 5% reduction in the customs duty on aviation fuel. This is expected to make Zambia a regional player in the aviation sector and improve the number of tourists visiting the Country.

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Marginal Increase in the Health sector allocation from K4.2 billion in 2014 to K4.5 billion in 2015

Planned recruitment of over 2,000 health personnel

68% of education budget to be used for recruitment of 5,000 teachers and maintenance of current workforce

Health Sector

The health sector continues to be one of the priority areas for the current Government. In the 2014 Budget, the Government allocated about K4.2 billion or 9.9% of the Budget to the health sector while K4.5 billion or 9.6% of the national Budget has been allocated to the health sector in the current Budget.

As noted in both the President's opening speech to Parliament and the 2015 Budget presentation, the 2014 allocation has been largely spent on the following:

- Increasing the availability of health frontline staff through the construction and rehabilitation of training institutions (two new training institutions are underway and 27 institutions are under rehabilitation).
- Construction of 650 health posts, which are expected to be completed by 2016 as well as the continued construction of district hospitals. In this regard, the Government has embarked on the construction of 30 district hospitals in various parts of the country with a further eight to start before the end of 2014.
- Procurement and installation of modern and specialised medical equipment at the country's four main hospitals (Lusaka, Kitwe, Ndola and Livingstone).
- Further extension of other hospitals in the rest of the provinces.

K268.2 million has been allocated to the construction and rehabilitation of health infrastructure while K753.5 million has been set aside for the

procurement of essential drugs and medical supplies.

To supplement the current number of frontline health personal of 13,147, the government plans to recruit over 2,000 health personnel bringing the total number to 15,000.

Education and skills development

Government has allocated K 9.4 billion or 20% of the total budget to the education sector. This is the same proportion as was allocated in 2014. Of this, 68% will go towards the recruitment of 5,000 teachers and sustaining the current establishment in an effort to reduce the pupil teacher ratio.

Over K1.7 billion has been allocated to infrastructure development, with K1.1 billion earmarked for early childhood, primary and secondary education. K650 million has been allocated towards the construction of universities. Five universities are expected to be completed by the end of 2015, while construction of two more universities is planned to commence in 2015. The allocation will also be used for the construction of additional accommodation at three universities and a college.

To improve access to tertiary education, the allocation for bursaries has been increased from K156.5 million in 2014 to K200.2 million in the 2015 budget. However Government is concerned that the cost of publicly provided tertiary education is among the highest in the SADC region, and that there is a need to review this.

A further K79.6 million has been allocated to the construction of nine trades training institutes across the

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Energy infrastructure projects on course

country, with three expected to be completed in 2015.

Water supply and sanitation

The allocation towards water supply and sanitation has been increased by 30% to K541 million from K417 million for 2014. The water supply and sanitation allocation will be used for the rehabilitation and construction of water supply and sanitation infrastructure in the rural, peri-urban and urban areas.

Manufacturing

Noting that SMEs hold the greatest potential for job creation, the Government will continue to allocate funds to the Citizens Economic Empowerment Commission (CEEC) and support initiatives such as the Alternative Investment Market launched by the Lusaka Stock Exchange (LUSE). In 2014, the government funded 1,072 out of the approved 1,526 projects, worth K48 million, through the CEEC.

Other initiatives include plans to establish industrial clusters in each district that will provide industrial workshops for the manufacture of various products.

The Government remains committed to the growth of the manufacturing sector through the promotion of Multi-Facility Economic Zones and Industrial Parks. It is expected that the Chambishi, Lusaka South, Lusaka East and Lumwana MFEZs will be completed by 2017.

Energy infrastructure

Government continues in its efforts to ensure availability of adequate and reliable supplies of energy. The completion of the 360 MW Kariba North Bank hydro power extension

project and 50 MW Ndola heavy fuel plant are expected to reduce the electricity deficit.

The 120 MW Itezhi-Tezhi hydro and 300 MW Sinazongwe thermal power plants are on course for completion in 2015, while the 750MW Kafue Gorge Lower hydro power project is expected to accelerate in 2015.

K600 million has been allocated in 2015 to the Zambia Electricity Supply Corporation (ZESCO) for power generation, transmission and distribution, while K71 million has been allocated to the Rural Electrification Programme.

In the petroleum sub-sector, Government's focus is on ensuring security of supply of petroleum products to attain 30 days strategic reserves. Accordingly, additional strategic petroleum reserve depots will be constructed and an efficient mechanism for procuring petroleum strategic stocks will be put in place.

Local Government & Housing

In 2015, the Government through a local government equalisation fund, will provide additional funds to councils for local service delivery, as part of the decentralisation policy launched in 2013.

The Zambia National Building Society was recapitalised in 2014, with a capital contribution of K165 million. The aim is to enable more people gain access to affordable housing credit. The Government is also working with the private sector to resolve the housing deficit in the country.

The Government has allocated K799 million in the 2015 Budget for housing and community amenities.

Recapitalisation of Zambia National Building Society

K799 million for housing and community amenities

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Copper production is projected to be marginally higher than the 2013 production of about 790,000 metric

Gemstones continue to contribute to domestic revenue collection as evidenced by sales of over US\$50 million in the first 8 months of 2014

Government is operationalizing the road tolling programme as an innovative and self-financing mechanism for sustainable road rehabilitation and maintenance

Mining

The mining sector has continued to be dominant in the economy, especially with new mining investments in North-Western Province such as Kalumbila Mine. Mining plays a significant role in the economy as a source of employment, foreign exchange earnings and contribution to GDP.

In the first eight months of 2014, mining production was 448,673 metric tonnes, which was about 50,000 metric tonnes lower than the corresponding period in 2013. The lower outturn was largely on account of a fall in output recorded at one of the major mines, the depletion of oxide ore and stockpiling of concentrates at some mines.

Notwithstanding the above, copper production is projected to be marginally higher than the 2013 production of about 790,000 metric tonnes. The Government maintains that the country is on course to reach the expected 1,000,000 metric tonnes annually by 2017.

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. Gemstones continue to contribute to domestic revenue collection as evidenced by sales of over US\$50 million in the first eight months of 2014.

The 2015 Budget has introduced some changes to the mining fiscal regime aimed at increasing revenues collected from the mines. It has been proposed to replace the current two tier system, of collecting mineral royalty tax and corporate tax from the mining companies, with a simplified mining

tax structure. The new tax structure proposes collecting either mineral royalty tax or corporate income tax as applicable to each mining company.

Transport

The Government recognises that infrastructure development is important in its goal to enhance economic development of the prioritised economic sectors.

As a result, the Government has continued implementing major road projects such as the Link Zambia 8000, Pave Zambia 2000, Lusaka 400 and Road Tolling road projects. In the current budget, an allocation of K5.6 billion has been set aside for road infrastructure.

The Government is operationalising the road tolling programme as an innovative and self-financing mechanism for sustainable road rehabilitation and maintenance. The programme has been implemented at eight weigh bridges and 18 ports of entry targeting vehicles with weights above 6.5 tonnes. So far, K187.4 million has been raised from the programme in 2014.

Efforts continue being made to improve the railway network to reduce the heavy load on the roads. This is expected to result in an increase in cargo transported by rail.

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Mining Taxes

2015 National budget

Increase in mineral royalty tax rate

The Minister proposes fundamental reforms to the mining tax regime. Currently mining operations are subject to both corporate income tax and mineral royalty tax. This will be replaced by a single mineral royalty tax at significantly higher rates as follows:

- 8% mineral royalty tax rate for underground mining operations as a final tax
- 20% mineral royalty for open cast mining operations as a final tax

Some mining related activities will remain subject to corporate income tax as follows:

- 30% corporate income tax rate on income earned from tolling
- 30% corporate income tax rate on income earned from the processing of purchased mineral ores, concentrate and any other semi-processed minerals currently taxed as income from mining operations.

Currently, entities carrying on mining operations are subject to the following tax regime:

- Mineral royalty tax of 6% of norm/ gross value of base metals / minerals sold. This is not a final tax;
- Basic corporate income tax rate of 30%, where the taxable income from mining operations does not exceed 8% of the gross sales.
- Variable corporate income tax where the income from mining operations exceeds 8% of gross sales. In this case, in addition to the basic tax of 30%, mining companies are subject to a variable profits tax of up to a maximum of 15%. The actual rate

will depend on the proportion of taxable income which exceeds 8% of the gross sales.

The new measures announced will not affect the mining of industrial minerals which will continue to be subject to the variable rate of corporate income tax. It seems that the increase in mineral royalties will not apply to industrialised minerals.

(Note that industrialised minerals are geological minerals which are mined for their commercial value. This term excludes fuel minerals or metallic minerals.)

No change has been announced to the withholding tax regime applicable to mining companies.

It is therefore assumed that mining companies will continue to benefit from a 0% withholding tax on dividends.

The withholding tax rate on payments of interest, royalties, management and consultancy fees by mining companies will be the same as that applicable to all other industry sectors.

Commentary

These measures are aimed at increasing revenue obtained from the mining sector to “achieve a more equitable distribution of mineral wealth”.

The 8%/20% royalty tax applies to the value of the minerals. In most cases it is calculated on the “norm value” determined according to the price on the London Metal Exchange.

In providing for different mineral royalty rates, the Government has sought to take account of the fact that underground mining and open cast mining have different cost structures.

Abolition of corporate income tax on most mining activities

Reduction in corporate income tax rate to 30% on income from processing and tolling activities

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Mining Taxes

The 20% mineral royalty on open cast mines will be among the highest rates in the world

No tax relief for operating costs or capital expenditure for mining operations

Reduction of corporate income tax to 30% on processing and tolling targeted to boost value addition and incentivise job creation

Operating a single tier mining tax in the form of mineral royalty will arguably be straightforward to calculate compared to corporate income tax. The Minister also considers that this reduces scope for tax avoidance.

However, the 20% rate of mineral royalty on open cast mines is high by global standards.

With the abolition of corporate income tax, there will be no form of tax relief for the running costs or capital expenditure of a mine. This means that irrespective of whether or not a company makes any profits it will still be liable to tax.

Further, the mineral royalty applies equally to mines regardless of the cost of extraction. As this will be the final tax there will be no deduction for mineral royalties. Previously mining companies were able to claim the mineral royalty as a deduction for corporate income tax purposes.

The changes proposed are a major deviation from normal taxation principles whereby enterprises are provided relief for business expenditure incurred, particularly where there is a significant capital expenditure requirement as in the mining industry.

The application of a turnover-based tax with no relief for operating costs

and capital expenditure will be a major cause for concern and is likely to be a key disincentive for mining companies to continue operations, particularly if they are already operating at loss.

This measure could in the longer term render investment in the Zambian mining sector unattractive.

The reduction of the corporate income tax rate to 30% on the processing of mineral ores and tolling activities is intended to incentivise value addition and consequently contribute to job creation. It is not clear whether the reduction below the normal 35% CIT rate will be sufficient to achieve this aim.

Housekeeping measures

Amendment to redefine minerals

Currently the definition of minerals in the Income Tax Act excludes minerals that are won through quarrying with the exception of limestone. This measure will align the definition of minerals in the Income Tax Act to the definition in the Mines and Minerals Development Act. Going forward it would appear that the products of all quarries will be treated as minerals for tax purposes.

Effective Date

All the above will be effective from 1 January 2015.

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Direct Taxes

PAYE

Tax bands unchanged

The rates and thresholds for personal income tax/PAYE remain unchanged. The first K3,000 of monthly earnings remains tax free.

The top 35% rate on income tax continues to apply on monthly earnings over K5,900.

Corporate Income Tax

Outside the mining sector, changes to Corporate Income Tax are broadly technical in nature. The main rate of tax for the majority of businesses remains at 35%.

Non-deductibility of impairment provisions of bank and financial institutions for debts secured by collateral

The Minister has proposed that no deduction be allowed for impairment provisions/bad debts incurred by banks and financial institutions for debts that are secured against collateral.

This measure is intended to align the tax treatment of bad debt secured against collateral to insured losses.

Taxation of international carriage income of Zambia resident carriers

The Minister proposes to introduce tax on income earned by Zambian resident businesses from international carriage of persons, mail, livestock or any other goods shipped or loaded outside Zambia to other destinations outside Zambia.

Under the current tax regime, this income is not treated as being sourced in Zambia and thus not taxable here.

This measure seeks to prevent the double non-taxation of this income type by taxing it in Zambia if it is not taxed in the foreign country where it is earned.

Removal of requirement to file Annual Financial Statements with Annual Income Tax Returns

Following the introduction of electronic filing, it is proposed that requirement to file Annual Financial Statements with a tax payers' annual tax return be removed.

Alignment of the definition of a permanent establishment to global standards

It is proposed that the definition of a permanent establishment (PE), for purposes of determining the liability to tax in Zambia, be aligned with definitions in international model tax treaties.

A foreign company becomes taxable in Zambia, when it forms a PE here. The aligning of the definition of a PE under Zambia tax legislation to global standards will reduce ambiguities as to whether or when a business will be taxable in Zambia.

No change to personal income tax rates and thresholds

Main Corporate Income Tax rate remains 35%

Zambia at 50

Cracking the figures

2015 National Budget

Direct Taxes

Other Direct Taxes

Withholding tax accounting on branch profit repatriation

Following amendments to the tax legislation brought about in last years budget proposal which introduced withholding tax on branch profits, the Minister now proposes further measures to provide for the accounting of this withholding tax.

Withholding tax on interest received by tax exempt entities

The withholding tax (WHT) rules will be clarified to ensure that WHT applies on interest arising from treasury bills, government bonds, corporate bonds or any financial instruments or securities. Going forwards, all tax exempt bodies will suffer WHT on this income.

Currently only Public Benefit Organisations are subject to this rule.

Amendment of the definition of “turnover” for purposes of turnover tax

It is proposed that the definition of a “turnover” for turnover tax purposes be amended to clearly exclude interest, rental income, dividend and royalties.

This measure is intended to clarify that such “passive” income or income from investments is excluded from the Turnover Tax regime.

Doubling of presumptive tax payable by individual operators of public service vehicles

The Minister proposes to double the presumptive tax payable by individual operators of public service vehicles.

This measure is aimed at adjusting the tax payable by the operators for inflation as this has not been increased since its introduction in 2004. The current tax payable by operators ranges from K600 per annum for a vehicle with a sitting capacity below 12 seats to K7,200 for a vehicle with 64 seats and above. The tax payable should now range from K1,200 to K14,400.

Extension of exemptions under the Millennium Challenge Account Act to contractors, consultants and other vendors

It is proposed that the Income Tax Act be amended to extend tax exemptions available on income from the Millennium Challenge Account (MCA) as provided in the Millennium Challenge Compact Act to cover eligible entities or persons such as contractors, consultants and other vendors that may qualify for tax exemption.

Currently, only MCA Zambia and implementing agents are covered under the ITA.

This should be welcomed by any NGOs and consultants providing services to the Millennium Challenge Company Zambia.

Effective date

The above measure will take effect on 1 January 2015

Withholding tax will apply to interest on Government bonds received by all tax exempt bodies

Presumptive tax paid by vehicle operators to rise

Zambia at 50

Cracking the figures

2015 National Budget

Direct Taxes

Property Transfer Tax

Restriction of group relief provisions

Currently the transfer of shares, land and buildings or mining rights to a company within a group for purposes of reorganisation will qualify for Property Transfer Tax (PTT) exemption if the transferee is resident in Zambia irrespective of the fact that the holding company may be resident outside Zambia.

The Minister now proposes to restrict this relief. The exemption will only apply if the holding company is also resident in Zambia.

Effective date

The above measure will take effect on 1 January 2015

Zambia Development Agency

Aligning of tax incentives to policy objectives

It has been announced that the legislation will be clarified to align the rules to the policy objective of restricting these incentives to manufacturing enterprises located in:

“a rural area or operating in a Multi-Facility Economic Zone or Industrial Park.”

Effective date of change

The above measure will take effect on 1 January 2015

Tax administration

It is proposed that the law will be amended to indemnify ZRA itself against any other parties which seek to obtain any form of order to seize properties from ZRA. It is understood that, previously, other parties have appointed bailiffs in attempts to seize ZRA assets to seize ZRA assets which has hampered the operational effectiveness of ZRA.

Rules for PTT group relief modified to require a Zambian resident holding company

Clarification of corporate income tax and withholding tax incentives applicable to manufacturing enterprises

Zambia at 50

Cracking the figures

2015 National Budget

Indirect Taxes

VAT

No fundamental changes to the VAT rates and regulations were announced.

The following housekeeping measures were announced:

Anti-avoidance provisions

The scope of the anti-avoidance provisions in the VAT Act will be increased.

Intending trader scheme

The Finance Minister proposes to amend the “intending trader” scheme with respect to claims made for input VAT. Input VAT claims by intending traders will be restricted to the corresponding business lines following the expiry of a stipulated period where trading activities have not commenced on a timely basis. We understand that this is intended to restrict VAT claims provided to traders prior to the commencement of business in instances where the nature of the business changes, or where the business does not commence within the stipulated time frame.

Late payment penalties

The penalty for the late payment of VAT is to be aligned with the due date for the submission of VAT returns i.e. the 21st day of the month following the prescribed monthly period to which the VAT return relates. Currently, late payment penalties commence on the day following the submission of the monthly VAT return to which the payment relates, even if this is after the due date for payment. This will correct a perceived drafting error currently in the taxpayer’s favour and

will increase the penalties for late payment of VAT in some cases.

Deregistration from VAT scheme

Suppliers whose turnover falls below the registration threshold (currently K800, 000) during an accounting year will be allowed to deregister after the end of such an accounting year. This is meant to avoid any disruptions to the supplier’s business during the accounting year.

Other measures

The First Schedule of the VAT Act, in particular, Group 16 with respect to exempt agricultural products, is to be amended to clarify any ambiguous meanings implied by unclear punctuation and wording.

The Second Schedule of the VAT Act is to be amended to clarify that it is only goods or services which are supplied to and exclusively used for a donor/Government financed projects that will qualify for a zero rate of VAT. In this respect, goods or services supplied to contractors assisting on such projects but which are not used exclusively for the donor/Government financed projects, will not qualify for the zero rate of VAT.

The provisions of the VAT Act and the Animal Health Act of 2010 are to be harmonised.

Effective date

All of the above measures will take effect on 1 January 2015.

VAT rates remain unchanged

VAT anti-avoidance rules to be strengthened

Zambia at 50

Cracking the figures

Indirect Taxes

2014 National Budget

Government to work with exporters to address concerns on delayed VAT refunds due to issues with VAT Rule 18

Application of VAT Administrative Rule Number 18 (Rule 18)

In the Budget speech, the Minister noted that there are concerns regarding the application of VAT Rule 18 and the proof of export requirements. He noted that non-compliance by some exporters under Rule 18 has led to the non-payment of VAT refunds by the Government.

He however expressed a desire to “expeditiously and amicably resolve” these concerns.

Rule 18 currently provides that any taxable supplier exporting goods that they claim qualify for zero-rating for VAT purposes must provide the following documentation to ZRA:

- i) Copies of export documents for the goods, bearing a certificate of shipment provided by ZRA;
- ii) Copies of import documents for the goods, bearing a certificate of importation into the country of destination provided by the customs authority of that country;
- iii) Tax invoices for the goods exported;
- iv) Proof of payment, made by the customer, for the goods;
- v) Documentary evidence, proving that the payment for the goods has been made by the customer into the exporter’s bank account in Zambia; and
- vi) Such other documentary evidence as the authorised officer may reasonably require.

Rule 18 has been in force since 1997. However, it appears that ZRA did not rigorously enforce all the documentary requirements under Rule 18 until around 2012.

Currently, there is no globally established practice for customs

agencies to provide confirmation of importation of goods into their countries. Furthermore, where the exporter has sold his products on a commodities market, then there may be no direct relationship with the final customer and indeed it may even be difficult to establish who the final customer/importer is.

Given this some exporters face practical difficulties in obtaining copies of import documentation from the end importer. This has resulted in “non-compliance” with Rule 18.

The principle legislation that provides for VAT refunds for exports is found under Section 15 and the Second Schedule of the VAT Act.

Section 15 states that goods and services “described in the Second Schedule shall... be zero rated.” Item 1 of the Second Schedule zero-rates:

“Exports of goods from Zambia by or on behalf of a taxable supplier, where such evidence of exportation is produced as the Commissioner-General may, by administrative rule require.”

The critical issue then is that there should be sufficient **evidence of exportation**. We understand that Rule 18 is drawn up under the direction of the Commissioner General of ZRA. It does not require an Act of Parliament or Statutory Instrument to amend the directive. Given this, it would appear, that, providing the Commissioner General acts within the spirit and scope of the law he should be able to exercise his discretion.

It should therefore be possible to work out new rules that strike a proper balance between incentivising export growth and safeguarding against isolated incidences of fraud.

Zambia at 50

Cracking the figures

Indirect Taxes

2015 National Budget

Customs and Excise

Aviation fuel

The Minister proposes that Customs Duty be removed on aviation fuel.

Removal of 5% customs duty on Aviation fuel

The principal objective of this measure is to reduce costs in the aviation industry. It is intended that this will assist in making Zambia a regional hub for air traffic.

In addition to increasing the number of connections, it is to be hoped that players in the aviation industry will pass down an element of these savings to the final consumer.

Increase of specific duty rate on refined edible oil

Refined edible oil

The Minister proposes to increase the specific duty rate on refined edible oil from K0.85 per kilogram to K2.20 per kilogram.

Increase of customs duty on explosives

This proposed change is intended to bring refined edible oil at par with the ad valorem rate of 25% charged on imported refined edible oil.

Explosives

The Minister proposes to increase customs duty on explosives from 15% to 25%. The primary objective of this is to stimulate the local manufacturing industry and sustain employment in the sector.

Increase of customs duty on roofing sheets

Unless there is sufficient local capacity to manufacture explosives at a competitive price, costs for industries that require explosives (e.g. mining and road works) will increase.

Roofing sheets

The Minister proposes to double the customs duty on roofing sheets from 15% to 30%. The primary objective of this is to encourage local value

Increase of excise duty on imported un-denatured spirits

addition and sustain employment in the sector.

Un-denatured spirits

The Minister proposes to increase the excise duty on imported un-denatured spirits of alcoholic content of 80% or higher by volume, from 0% to 125%.

This proposed measure will only apply to importers who are not licenced to manufacture excisable products. Licenced manufacturers will continue to account for excise duty at the point of sale of the manufactured potable spirits at the current excise duty rate of 60%.

The above proposed changes are part of the changes to the customs and excise duty regime which are intended to result in a net revenue gain of K40 million.

House keeping measures

The Minister has proposed the: introduction of a K1,000 penalty fee for persons who submit multiple customs declarations for the same transactions. After a third offence, offenders will be deregistered.

Amendment of the Customs and Excise Act to distinguish between the various types of services provided by mobile phone providers.

Increase the ASYCUDA processing fee from K55.60 to K83.00.

Effective Date

All of the above will be effective from 1 January 2015

Zambia at 50

Cracking the figures

2015 National Budget

Tax Data Card

Corporate tax rates

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Standard rate | 35% | 35% |
| Banks | 35% | 35% |
| Telecommunication companies | | |
| Income not exceeding K250,000 | 35% | 35% |
| Income exceeding K250,000 | 40% | 40% |
| Farming | 10% | 10% |
| Income earned from organic fertilizer | 15% | 15% |
| Export of non-traditional products* | 15% | 15% |
| Foreign earnings of Sun International Limited | 15% | 15% |
| All other companies except mining companies | 35% | 35% |
| New listings on LuSE** | 2% discount | 2% discount |
| New listings on LuSE > 33% shares taken up by Zambians | 2% discount | 2% discount |
| Turnover tax levied on business with turnover below K800,000 (excludes passive income and income earned from consultancy services, property rental, mining and VAT registered businesses) | 3% | 3% |
| Advanced Income Tax (upon importation of goods for commercial purposes in the absence of a valid tax clearance certificate) | 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.

Zambia at 50

Cracking the figures

2015 National Budget

Tax Data Card

Mining Companies

| | 2015 | 2014 |
|--|------------|------------|
| Corporate Income Tax rate | | |
| Mining Profits | | |
| Profits from income earned from tolling/ processing of purchased mineral ores, concentrates and other semi-processed minerals. | 30% | BR+VPR** |
| Industrial Mineral Mining | BR + VPR** | BR + VPR** |
| All other mining activities (including copper mining) | N/A* | BR + VPR** |
| Mineral Royalty | | |
| Underground Mining Operations | 8% | 6% |
| Open Cast Mining Operations | 20% | 6% |
| <p>Not Applicable (N/A)*: Corporate income tax no longer applies to profits of mining entities involved in underground mining operations and open cast mining operations from 1 January 2015. These entities are now only subject to the increased mineral royalty tax. The variable profit tax now only applies to profits from industrial mineral mining and is calculated as follows:</p> | | |
| Basic Rate (BR) ** | 30% | |
| Variable Profit Rate (VPR) *** | 15% | |

Withholding Tax on dividends paid by companies carrying on mining operations

| | Resident | Non Resident |
|----------|----------|--------------|
| Dividend | 0% | 0% |

Zambia at 50

Cracking the figures

2015 National Budget

Tax Data Card

Income Tax Individuals

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 | 5,900 | | 35 | | |

2015

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. |

Zambia at 50

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Tax Data Card

Dividends from Lusaka Stock Exchange

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

Withholding Tax

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

Note: The above rates are unchanged from 2014.

* 0% for dividends paid by LuSE listed companies to individuals.

Tax Treaties

Canada, China, Denmark, Finland, France, Germany, India, Ireland***, Italy, Japan, Kenya, Netherlands***, Mauritius, Norway, Romania, Seychelles, 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

*** These treaties are currently under review.

Zambia at 50

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2015 National Budget

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%* |

*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)* | 2015 | 2014 |
|----------------------------------|------|------|
| Land (including buildings) | 10% | 10% |
| 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

Zambia at 50

Cracking the figures

2015 National Budget

Tax Data Card

Zambia Development Agency

Concessions for Priority Sectors

The following incentives may be granted to an investor investing not less than USD500,000 in a priority sector or product in a Multi-Facility Economic Zone (MFEZ) or an industrial park or a rural area declared under the Zambia Development Agency (ZDA) Act in 2015:

- No Corporate Income Tax (CIT) on business profits for a five year period from the date of commencement of business operations.
- Withholding Tax (WHT) on dividends charged at 0% for a five year period from the date of commencement of business operations.
- 100% improvement allowance for tax purposes on capital expenditure for improvement and upgrading of infrastructure.

Note: Where the concessions were granted in previous periods, these may no longer apply, or if they do, may be varied.

Zambia at 50

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2015 National Budget

Tax Data Card

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.

Presumptive Tax

Public Service Vehicle (PSV) operators are required to pay presumptive tax on each motor vehicle as follows:

| Type of Vehicle | Tax per Vehicle per annum (2014) | Tax Per Vehicle per annum (2015) |
|---------------------|----------------------------------|----------------------------------|
| 64 Seater and above | K7,200 | K14,400 |
| 50-63 Seater | K6,000 | K12,000 |
| 36-49 Seater | K4,800 | K9,600 |
| 22-35 Seater | K3,600 | K7,200 |
| 18-21 Seater | K2,400 | K4,800 |
| 12-17 Seater | K1,200 | K2,400 |
| Below 12 Seater | K600 | K1,200 |

Zambia at 50

Cracking the figures

Tax Data Card

2015 National Budget

Deadlines and Penalties

| 2015 Deadlines | Penalty | Interest |
|--|---|--|
| <p>Income Tax- Companies</p> <p>Provisional tax Return deadlines: 31 March 2015, 30 June 2015, 30 September 2015 & 31 December 2015 (where applicable)</p> <p>Payment deadlines: Within 14 days following the return date</p> <p><i>Note:</i> <i>2/3 of the total tax liability payable by the final quarter</i></p> <p>Final tax return & payment Deadline: 30 June 2016</p> | <p>Provisional tax: Late filing of return: K400 per month or part month</p> <p>Late payment of tax: 5% per month or part month</p> <p>Underestimation of tax: 25%</p> <p>Late filing of return: K400 per month or part month Late payment of tax: 5% per month or part month</p> | <p>N/A</p> <p>Late payment: 2% + DR*</p> <p>N/A</p> <p>N/A</p> <p>Late payment: 2% + DR*</p> |
| <p>Income Tax- Individuals</p> <p>Final tax return & payment Deadline: 30 June 2016</p> | <p>Late payment of tax: 5% per month or part month Late filing of return: K200 per month or part month</p> | <p>Late payment: 2% + DR*</p> <p>N/A</p> |
| <p>Withholding Tax (WHT) Filing & payment deadlines: Within 14 days after the end of the month of accrual / payment</p> <p>Payroll (PAYE) Filing & payment deadlines: Electronic returns to be filed within 14 days after the end of the month of accrual / payment. Manual returns to be filed within 5 days of after the end of the month.</p> <p>VAT Filing & payment deadlines: 21 days after the end of the accounting period</p> <p><i>NB: All annual Income Tax, PAYE and VAT returns should be submitted electronically to the ZRA except for certain small businesses.</i></p> | <p>WHT late payment of tax: 5% per month or part month</p> <p>WHT late filing of return: K400 per month or part month</p> <p>PAYE late payment of tax: 5% per month or part month</p> <p>PAYE late filing of return: K400 per month or part month</p> <p>VAT late filing of return: Daily penalty- higher of K200 and 0.5% x tax payable VAT late payment of tax: Daily penalty- 0.5% x tax payable</p> | <p>Late payment: 2% + DR*</p> <p>N/A</p> <p>Late payment: 2% + DR*</p> <p>N/A</p> <p>Late payment: 2% + DR</p> |

Key

*DR= Bank of Zambia discount rate

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

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2014 National Budget

Notes

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Notes

2014 National Budget

The information on this budget bulletin and tax data card is based on the budget pronouncements of 10 October 2014. 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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