

**Zambia:** Recent progress on compliance costs, but long-term tax policy still a challenge

# Paying Taxes 2016

## Zambia



Having remained fairly stable for the period from 2004 to 2012, Zambia's performance on the *Paying Taxes* sub-indicators has recently seen significant changes.

### **Total Tax Rate**

The Total Tax Rate has increased from 15.5% in 2013 to 18.6% in 2014. Despite the increase, Zambia still has one of the lowest Total Tax Rate in Africa.

The low Total Tax Rate is largely attributable to a more favourable tax treatment afforded to the manufacturing and agricultural sectors. For instance, unlike other industry sectors, entities operating in the manufacturing and agricultural sectors can claim capital allowances at a rate of 50% on a straight line basis on the cost of plant or machinery purchased, as is the case for our case study company.

### **Zambia:**

*Paying Taxes* 2016 sub-indicator results



**18.6**  
%



**157**  
hours



**26**  
payments

In Zambia it takes our case study company 157 hours to comply with its taxes, it makes 26 payments and has an average Total Tax Rate of 18.6%. Use our modeller to compare your results, [www.pwc.com/payingtaxesmodeller](http://www.pwc.com/payingtaxesmodeller)

Zambia is largely dependent on earnings from mining of copper and other minerals and is vulnerable to movements in commodity markets. To reduce dependency on copper mining, the government is seeking to diversify the economy by developing other sectors. The government's key focus is to develop the agriculture and manufacturing sectors together with any other industries that add value. Hence, in addition to accelerated relief for capital expenditure in these sectors, investment in manufacturing, agriculture and other value adding sectors can also benefit from tax concessions (including corporate tax, withholding tax and import duty exemptions) granted by the Zambia Development Agency (ZDA), a body which promotes and facilitates trade and investment in Zambia. Taxpayers in these and other value adding sectors can further benefit from a reduced rate of corporate tax of 15% on non-traditional exports.

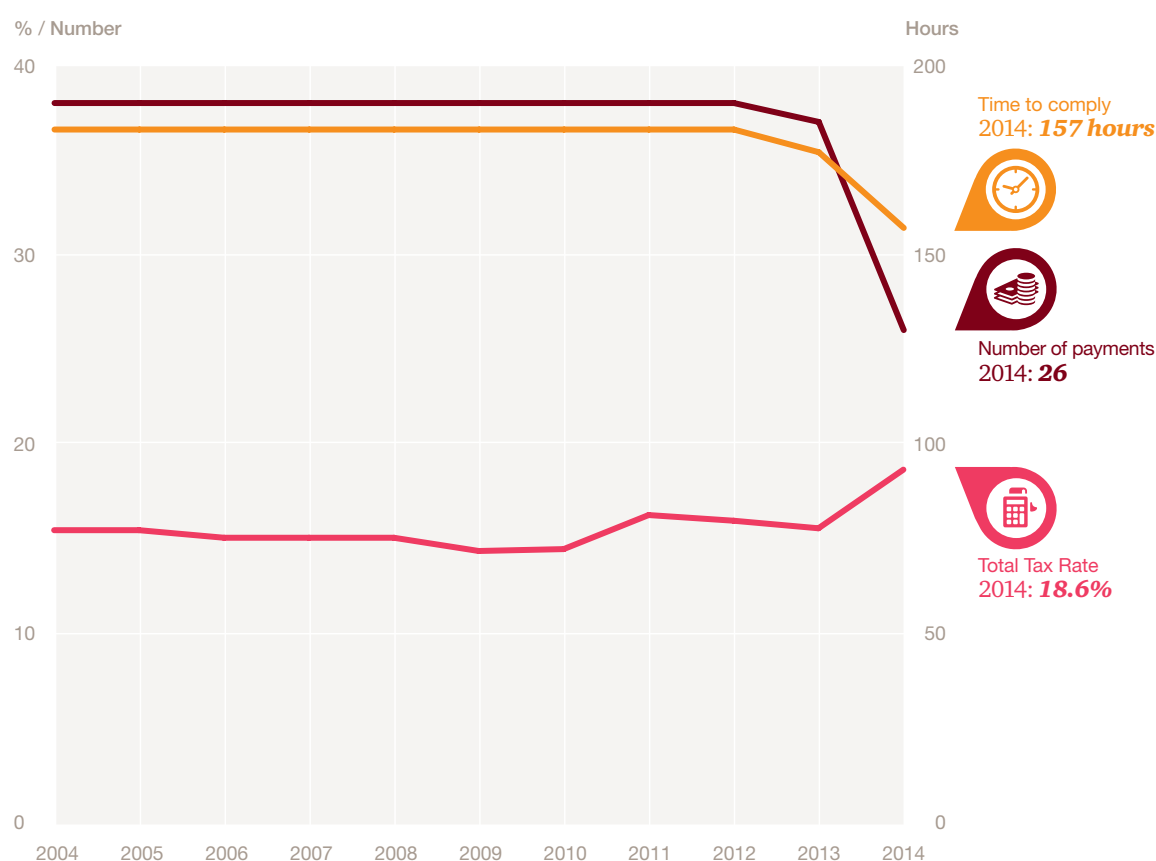
Given that the tax treatment in Zambia largely depends on the sector in which a company operates, the *Paying Taxes* Total Tax Rate for Zambia may not be reflective of the tax cost in other industry sectors such as telecommunications, financial services and mining. In these other sectors, the total taxes borne by companies tend to be higher.

### Launch of TaxOnline

In October 2013, the Zambia Revenue Authority (ZRA) made progress on its commitment to address the high tax compliance costs for taxpayers with the introduction of 'TaxOnline', an electronic tax filing and tax payment system.

**Figure 1**

**Trend in the *Paying Taxes* sub-indicators for Zambia since 2004**



Source: PwC *Paying Taxes* 2015 analysis

With the launch of TaxOnline, it is no longer necessary to physically go to the ZRA offices to register for taxes, file tax returns or make tax payments. Following the introduction of the web-based tax filing and payment system, the time taken to comply with tax obligations dropped by 3% in 2013, and by a further 11% in 2014. While these reductions in time are encouraging, there may be room for further improvements as not all teething problems have been fully ironed out and the ZRA may need to make a concerted effort to resolve any remaining issues before the benefit of the online system can be fully realised.

The story in the case of number of tax payments sub-indicator is more positive. The introduction of a web-based payment system reduced the payments sub-indicator by 11 payments between 2013 and 2014 as the majority of taxpayers now file and pay their VAT online. Online filing and payment is also available for corporate income tax, but many companies still prefer to pay this tax by cheque and so the payments sub-indicator does not yet reflect online filing and payment for corporate income tax.

It is also worth mentioning that in addition to rolling out an electronic tax filing and payment system for the key taxes, namely corporate income tax, VAT, withholding tax and personal income tax and social security contributions, the ZRA in 2014 also launched ASYCUDAWorld which automates the whole import and export customs declarations and payment process, thereby expediting customs clearance at the border post.

The modernisation of the tax administration and compliance system is to continue. The Minister of Finance in his 2016 budget speech announced that VAT registered suppliers will be required to use electronic fiscal registers which will be interfaced with the TaxOnline system. Whilst the primary aim of this measure may be to widen the tax base and minimise tax fraud, it should also provide the government and the ZRA with up to date information on the levels of business activity in the retail and wholesale sectors.

In order to improve efficiency and increase revenue collection, the last few years have seen various measures undertaken by both the government and the ZRA to improve capacity and reduce tax compliance and administration costs for taxpayers and the ZRA alike. In addition to introducing an electronic tax filing and payment system, there has been significant investment in building knowledge and capacity by the ZRA.

It is hoped that the recent reforms in tax administration will not be limited to the measures described earlier, but will be extended to improving the quality of tax legislation drafting and the frequency with which the various amendments to the Tax Acts are consolidated.

Additionally, following the recent downturn in investor confidence, which may be partly attributable to the uncertainty created by several significant changes in the mining tax regime within a short space of time, it is hoped that the government will adopt a longer term outlook when determining any tax policy changes.

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