Welcome
This PwC Budget bulletin summarises the Government’s key proposals for 2018. It also includes our initial comments and analysis of the Budget proposals, which were presented by Minister of Finance, Honourable Felix C. Mutati (MP) to Parliament on 29 September 2017.

We hope that you will find it insightful, and look forward to your comments.

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Commentary

The Good, the Not so Good, and the Difficult

2016 was a difficult year for Zambia. 2017 is showing signs of a turnaround which can be used to once again re-set Zambia on a trajectory of good growth. However, critical decisions must be made and actions implemented promptly to steer the country on a path of sustainable development and inclusive economic growth. If the right decisions are made 2018 could be a year of real progress after two years in the doldrums.

Among the Good is reduction in the inflation rate from a high of around 23% in February last year to 6.3% in August this year. To that must be added appreciation of the Kwacha against major currencies, plus a higher growth rate projection of over 4.0% compared to the initial forecast of 3.4%.

There has been a striking turnaround in electricity generation from the waves of load shedding that threatened to bring businesses and households to their knees in 2016. The first eight months of electricity generation this year saw an increase by 23.7 from the corresponding period in 2016.

Priority in the electricity sub-sector will be placed on increasing the energy mix through promotion of off-grid electricity generation and alternative energy sources. On-going reforms will boost private sector participation. Capacity will be increased by moves that include small and medium private sector investment with renewable energy.

Macroeconomic objectives for 2018

The Minister’s key macro economic objectives for 2018 amongst other things include GDP growth of 5%; inflation of between 6% and 8%; import cover of 3 months and limiting the fiscal deficit on a cash basis to 6.1%.

The GDP growth target of 5% in 2018, in comparison to the forecast GDP growth of 4.8% for emerging and developing countries, is commendable. However the objective to reduce the fiscal deficit on a cash basis only, as opposed to an accruals basis is of concern. The objective to dismantle the stock of arrears promptly is critical for this fiscal year.

The five pillars

The 2018 Budget is premised on five pillars. These are:

1. Economic diversification and job creation;
2. Reducing Poverty and Vulnerability;
3. Reducing Development Inequalities;
4. Enhancing Human Development; and
5. Creating a Conducive Governance Environment for a Diversified and Inclusive Economy.

A note on each:

1. Part of the diversification for agriculture involves the creation of a number of farm blocks in the Copperbelt, Muchinga and Northern provinces. The model seems to be based on a concept of transferring skills and technology, and leveraging from private sector commercial practices to create local community-based integrated agricultural activities; these are not just limited to conventional farming but include vertical distribution and value-added facilities which smallholder farmers can participate in. Whilst there is little detail of the actual working modalities, the key benefits targeted are job creation and social development. Further details on this proposal would be welcome.

It is good news to learn that the much talked about e-voucher system will be fully implemented in the 2017/18 farming season to cover over one million farmers. The migration to the e-voucher is expected to assist in eliminating ghost farmers and duplication of beneficiaries. Once established, the system should enhance access to farm inputs and promote agricultural diversification.

Road development will continue under the Link Zambia 8,000, the Lusaka 400 and Copperbelt 400 projects. The critical Lusaka-Ndola dual carriageway is in two phases: the first is road construction to be followed by auxiliary infrastructure such as hotels, toll gates and service stations.
Commentary

It would appear that financing for the above projects may be derived from the setting up of an Infrastructure Development Fund with proceeds for that from the sale of Government assets, Pension Fund participation and the sale of infrastructure bonds. To date there has been no indication of exactly what Government assets might be up for sale.

2. More Good news in Pillar 2 on the Social Cash Transfer Scheme. The already increased coverage and monthly payments to beneficiary households will in 2018 be further increased from 590,000 households in 2017 to 700,000. In addition, Government will fully migrate to an electronic social cash transfer platform which should result in more effective delivery.

3. Decentralisation plans in Pillar 3 should also be popular, with the Government planning to see to it that finances required to provide front-line services and infrastructure projects are deconcentrated to provincial administration. Local people will be involved in project planning and monitoring, and there will be devolution of powers from central government to lower level structures. Although it is a sound and necessary development, and whilst it should speed up progress on local development projects and service delivery, a word of caution should be uttered. Insufficient capacity and inadequate financial monitoring or poor financial discipline, could override any benefits gained as was witnessed in a number of similar devolutions elsewhere in Africa.

4. The three components in Pillar 4 given as key to human development – health, education and skills, and access to water supply and sanitation – tend to be identified in the Budget by new buildings and other infrastructure, all of which are good and necessary and welcome, but the 2018 Expenditure By Function table makes no obvious provision for the human capital required to develop / transfer enhanced modern day skills and knowledge so necessary to achieve the objectives.

5. Measures announced in Pillar 5 to attain fiscal fitness, better social protection, a simpler and fairer way to expand the tax system must be commended. If implemented effectively and promptly these measures should provide a strong platform for enhancing the economic and social trajectory for this nation. The measures, which include revisions to the Public Finance Act (more punitive actions against abuse of and misapplication of funds), the Public Procurement Act (to improve prices and project appraisal prior to granting of tender approval), and the Planning and Budgeting Bill (legal framework for managing public resources), should go a long way in tackling “the Difficult”. It should expand the tax base, increase compliance and most importantly assist reformation of the public sector.

Tax changes

Among the objectives to limit fiscal deficit is the option to increase tax revenues. There are few significant tax measures pronounced in the current budget. The measures proposed primarily comprise of strengthening regulations and systems aimed at increasing revenue generation. Whilst the focus is on widening and deepening the tax base, the continued reliance on increasing revenue generation from PAYE collected from a relatively small proportion of the formal sector working population will have negative repercussions in terms of talent retention and employment prospects.

The absence of even an inflationary increase in tax exempt thresholds and tax bands for PAYE effectively reduces real income in the hands of the worker. This would be unsustainable in the longer term and government will need to shift the comparatively high burden of taxation away from PAYE.

Land Titling

At long last a start is being made on a land titling programme. Hon. Mutati reported that the pilot programme in Lusaka has been concluded. In 2018 the national land titling programme will be rolled out with the aim of issuing title for at least 300,000 parcels of land. He points out that the titling will significantly contribute to the generation of Government revenues.
Commentary

The elephant problem

There are a number of elephants in the room. One of the biggest is debt. The total public debt at the end of August represents a massive 47% of GDP - K114.9 billion, or USD 12.45 billion. The first payment due of USD 750 million towards the Eurobond debt is due in 2022, and another due in 2027.

So what can be done to tether this elephant of debt? It is not immediately evident other than to announce the formation of a Medium Term Debt Management Strategy. The Minister notes measures towards the ‘refinancing of the three Eurobonds and dismantling of the stock of arrears’.

Hon. Mutati refers to ‘intense discussions’ with the IMF. Progress is not immediately clear but Government will ‘continue to engage the Fund in October 2017 to set an agreeable macroeconomic framework that takes into account our spending and financing plans and provides a platform to conclude an IMF programme’. If the programme is not implemented it is likely to impact on external investor confidence and could jeopardise economic recovery.

Given the ongoing ambitious infrastructure plans, the need to implement public sector reform to achieve fiscal fitness, to dismantle arrears, and the requirement to fund the debt repayments, will the Minister of Finance be able to shift the elephants in time?
The Economy

Global economic growth and outlook

“World Economic Outlook (WEO), April 2017, global economic growth is expected to rise from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018”

According to the International Monetary Fund (“IMF”), the growth in the global economy anticipated in the April 2017 World Economic Outlook remains on track, with global output projected to increase by 3.5% in 2017 and 3.6% in 2018.

The performance of major economies varied during the year. On one hand, China and Japan’s growth have been revised upwards reflecting a stronger first quarter that has been driven by continued fiscal support.

On the other hand, the forecasted growth rate of the UK has been revised downwards on account of weaker than expected first quarter activity in 2017. However, on the contrary, growth in other EU economies outperformed expectations.

Emerging and developing economies are projected to have sustained improvement activity, with growth rising from 4.3% in 2016 to 4.6% in 2017 and 4.8% in 2018.

Commodity prices

Crude oil and base metal prices have been on an upward trend reflecting the recovery of the global economy and increased manufacturing activity in economies like China.

Copper prices continue to be driven by increased demand from China. The prices on the LME averaged USD 5,655.4 per tonne during the first half of the year compared to USD 4,499.3 per tonne during the same period in 2016. Crude oil on the other hand rose to USD 47.02 per barrel from USD 41.21 per barrel.

Sub Saharan Africa

For most Sub Saharan African (SSA) countries, the outlook remains challenged. Although growth is projected to rise in 2017 and 2018, it will barely return to positive territory in per capita terms this year for the region as a whole—and remains negative for about a third of the countries in the region. The upward revision of 2017 growth relative to the April 2017 WEO forecast reflects modestly improved prospects for South Africa, which is experiencing a bumper crop due to better than expected rainfall and an increase in mining output prompted by a moderate rebound in commodity prices.

Ease of doing business

Compared to its regional peers, Zambia’s ranking with respect to the ease of doing business remains challenged, particularly against regional neighbours like South Africa and Botswana.

<table>
<thead>
<tr>
<th>Country</th>
<th>Ranking 2015</th>
<th>Ranking 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zambia</td>
<td>94</td>
<td>98</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>157</td>
<td>161</td>
</tr>
<tr>
<td>South Africa</td>
<td>72</td>
<td>74</td>
</tr>
<tr>
<td>Botswana</td>
<td>70</td>
<td>71</td>
</tr>
<tr>
<td>Namibia</td>
<td>104</td>
<td>108</td>
</tr>
</tbody>
</table>


However, with respect to other indicators such as getting and paying taxes, Zambia is ranked a more respectable 58th.
Zambian economy

Zambia’s economy has continued to show resilience in 2017 with growth now projected at 4.3%, higher than the 3.6% in 2016. This has been driven by the bumper harvest following the 2017 farming season as well as increased activity in the manufacturing and mining sectors. There has also been a significant reduction in load shedding which has had a positive effect on production.

The Government introduced a number of reforms to stabilise the economy given the external headwinds it experienced in the last quarter of 2015 and the most part of 2016.

Phasing subsidies

In his last budget speech, The Minister announced a phased removal of the electricity subsidies in fuel and Farmer Input Support Programme (“FISP”) subsidies. In the first quarter of 2016, the Government through the Energy Regulation Board (“ERB”) made an upward adjustment to tariffs of 50% with another 25% in September 2017. This is an effort to reduce government expenditure. Similar actions have been taken with regard to fuel and FISP.

Inflation

Inflation for August 2017 was 6.3% down from 6.8% at the end of the second quarter and the government expects it to remain within the Bank of Zambia target range of 6-8% for the rest of the year. This will provide room for the central bank to further ease monetary policy in the months ahead.

Exchange rate

The Zambian Kwacha remained relatively stable compared to major global currencies.

The exchange rate of the Kwacha to the USD remained relatively stable in the second quarter of 2017 trading below the psychological mark of K10. The Kwacha appreciated during this quarter by 4.5% supported largely by improved supply of foreign exchange from the mining sector and non-resident seeking to invest in Government securities.

However, in September 2017 the Kwacha depreciated against the USD racing towards K10, closing at K9.6 as at 29 September 2017.

Interest rate

The Monetary Policy Committee in August 2017 reduced the policy rate from 12.5% to 11% and the statutory reserve ratio from 18% to 9.5%. This decision was arrived at after considering that inflation closed at 6.8% for the second quarter. According to the Bank of Zambia, inflation target will trend towards the lower band of the target in the medium term.

Despite the easing of the monetary policy, commercial bank average lending rates only fell marginally to 26.6% in August 2017 from 29.4% in December 2016.
Zambian economy

“Zambia Plus”

As a response to the current anticipated economic challenge, the Government developed the **Economic Stabilisation and Growth Programme (ESGP)** dubbed “Zambia Plus” 2017-2019. The programme is a medium-term strategy that sets out concrete actions that are required to restore fiscal fitness going forward, so as to reinvigorate the economy after a few years of sluggish growth.

The ESGP which is an anchor to the Seventh National Development Plan (7NDP), 2017-2021, has five key pillars.

- Restoring credibility of the budget by minimising unplanned expenditures and halting the accumulation of arrears;
- Enhancing domestic resource mobilisation and refocusing of public spending on core public sector mandates;
- Improving Zambia’s economic and fiscal governance by raising the levels of accountability and transparency in the allocation and use of public finances;
- Ensuring greater economic stability, growth and job creation through policy consistency to raise confidence for sustained private sector investment; and
- Scaling-up Government’s social protection programmes to shield the most vulnerable in our society from negative effects of the programme.

In implementing these measures, Government is alive to the fact that hard choices have to be made

**IMF programme**

Fiscal consolidation is critical to ensure that the Government reach an agreement with the IMF. Recently the Government announced the proposed increase of the civil service wage bill by approximately 7-9%. Currently, the civil service wage bill stands at 51% of domestic resources relative to the target of 45% by 2020. This position however need to be closely monitored to ensure the Government is within the parameters expected by the IMF.

The Minister in his speech however indicated that the Government is and will continue to engage the IMF in October 2017 to set an agreeable macroeconomic framework that takes into account the spending and financing plans over the MTEF.

**International trade**

Zambia’s international trade performance has been mixed in the last decade or so. Whilst the country had recorded a trade surplus over the past decade, it started to lose ground in the last 2 years due to various domestic and external factors, such as the energy deficit, depressed copper prices and export bans on maize.

As at 2016, Zambia’s share in intra-regional trade under COMESA stood at 22% for imports and 11.7% for exports. Under SADC, the market share for imports was 13.6% and 4.9% for exports. Zambia continues to import more than she exports to both COMESA and SADC countries. Overall, the export of goods and services declined to K17. 53 million as end June 2017 from K20.73 million as at end March 2017.

Access to the markets for the country’s exports continues to be a big hindrance to the improvement in the trade with the country’s export continuing to incur additional costs through long distance to major export markets and sources of inputs. This has in many ways impacted the competitiveness of the country’s products compared to similar producers in the region.

The government is in the process of developing a national trade policy that will seek to promote both domestic and international trade with a view to transforming Zambia from being an exporter of primary products to a net exporter of value added products.
The economic conditions have improved slightly since the turn of 2017 and the World Bank projects an improved growth rate of 4% in 2017. This follows high rainfall pattern that the country received in the 2016/17 agricultural season that has improved agricultural output and quickened the replenishment of hydro-electric reservoirs.

The Government launched the 7NDP in 2017 for the period 2017-2021.

The Plan, like the three National Development Plans (“NDPs”) that preceded it, is aimed at attaining the long-term objectives as outlined in the Vision 2030 of becoming a “prosperous middle-income country by 2030”.

The strategic goal of the 7NDP is primarily to create a diversified economy for sustained growth and social economic development. It will also include a result-oriented performance management system to be used to measure progress of its implementation.
Zambian economy

Government expenditure

**FY 17 budget performance**

The Government projects that the 2017 budgeted expenditure will be below the target by 6% and consequently, the fiscal deficit on a cash basis will close the year at 6.8% of GDP.

**FY 18 budget**

It is within the context of Government’s objective of fiscal consolidation that the Minister presented the 2018 budget. Focus on fiscal discipline continues, particularly when contrasted with the monetary policy which is seemingly under better control.

The total planned expenditure for the 2018 fiscal year is budgeted at K 71.66 billion (2017: K 64.51 billion) reflecting an increase of 11% from the prior year. Whilst the 11% increase in budgeted expenditure might, in isolation, be perceived to be in divergence with the objective of demonstrating fiscal discipline, the validity of such views should be assessed within the context of Government’s other strategic objectives.

The allocation to the public service represents the most notable increase in Government expenditure from about K 17.97 billion to K 25.90 billion - an increase of K 7.93 billion or 44%. Of the K 25.90 billion, the government expects to spend K 14.24 billion (20% of the budget) on external and domestic debt payments.

<table>
<thead>
<tr>
<th>Function</th>
<th>FY 16</th>
<th>FY 17</th>
<th>Mov’t</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>K’ billion</td>
<td>K billion</td>
<td>%</td>
</tr>
<tr>
<td>General public service</td>
<td>17.97</td>
<td>25.90</td>
<td>44%</td>
</tr>
<tr>
<td>Defence</td>
<td>3.20</td>
<td>3.50</td>
<td>9%</td>
</tr>
<tr>
<td>Public order and safety</td>
<td>2.34</td>
<td>2.14</td>
<td>-9%</td>
</tr>
<tr>
<td>Economic affairs</td>
<td>20.13</td>
<td>17.26</td>
<td>-14%</td>
</tr>
<tr>
<td>Environmental protection</td>
<td>0.62</td>
<td>0.95</td>
<td>53%</td>
</tr>
<tr>
<td>Housing and community amenities</td>
<td>0.82</td>
<td>0.82</td>
<td>0%</td>
</tr>
<tr>
<td>Health</td>
<td>5.76</td>
<td>6.78</td>
<td>18%</td>
</tr>
<tr>
<td>Recreation and other</td>
<td>0.32</td>
<td>0.45</td>
<td>41%</td>
</tr>
<tr>
<td>Education</td>
<td>10.64</td>
<td>11.56</td>
<td>9%</td>
</tr>
<tr>
<td>Social protection</td>
<td>2.69</td>
<td>2.30</td>
<td>-14%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>64.49</td>
<td>71.66</td>
<td>11%</td>
</tr>
</tbody>
</table>

The Government has set itself a target of restraining the public wage bill within a target of 45% of domestic revenues by 2020. Failure to achieve this target would leave the government with few realistic alternatives to finance capital expenditure – a key driver for economic growth – through domestic borrowing. In the event of such a situation arising, the need to access increased funding from the domestic market should be balanced with the unintended consequence of crowding-out private sector credit, which could in turn jeopardize the Government’s economic growth ambitions.

Some of the measures Government intends to implement to contain spending include: controlling growth of the wage bill by limiting recruitment to critical sectors and cleaning-up the payroll; revisions in the Public Finance Act to include more punitive consequences for abuse and misapplication of funds; and revisions of the Public Procurement Act to ensure value for money. Whether these measures deliver the desired outcomes will depend on the Government’s willingness, and ability, to make tough choices.
Zambian economy

Revenue and financing

The expansionary expenditure budget has given an aggressive domestic revenue target for the year of K49.09 billion. This represents an increase of 14% from 2017 and will largely be funded by increased collections of 31% and 26% from corporate income tax and VAT respectively. The Minister, in the MTEF highlighted a number of revenue mobilisation initiatives that will be employed to achieve these targets. These include; introduction of IT solutions to improve the collection of VAT, taxation of the informal sector, the roll out of land titling to increase land rentals paid, transfer pricing enhancements and the appointment of revenue collecting agents.

While these measures are progressive, what remains to be seen is the ability of Government to successfully implement them and widen the tax base. The revenue budget for 2016 was missed by 7.6% and the first half of 2017 has seen a similar performance with collections behind by 4.6% on account of lower collection of income tax and customs duties and land rent income. However, improved performance on VAT collections are a positive sign that the appointment of VAT agents is bearing fruit.

Debt position and debt policy

The budgeted fiscal deficit of K22.58 billion has widened marginally from K21.57 billion in 2017 and will be funded by a combination of local and external financing.

Under the medium term debt management, the Government aims to alter the debt portfolio ratio to 60:40 domestic / external debt from the current 45:55. In this regard the Minister proposes to significantly increase domestic financing from K3.84 billion to K11.15 billion and consequently reduce planned external financing from K17.73 billion to K11.42 billion. The risk in this regard is that this increased appetite for credit may crowd out the private sector as banks opt to invest in Government securities.

Public debt has risen dramatically in recent years, increasing from 31.5% of GDP in 2013 to an estimated 55% at the end of 2016, reflecting a combination of weaker growth and Zambia’s significantly increased borrowing in the low copper price environment. Local and external debt have risen from K32.98 billion and USD6.64 billion at December 2016, respectively to K44.6 billion and USD7.56 billion at August 2017, respectively.

While debt service costs have reduced over the last 12 months on account of lower yields on government paper and appreciation of the Kwacha, they still remain high (projected at 6.8% of GDP) and will continue to place significant pressure on the monetary policy regime over the medium term.

The Minister has highlighted that future borrowing will be guided by the recently released Medium Term Debt strategy to ensure that it remains within sustainable limits. An interesting measure under this strategy is the re-introduction of the sinking fund which was first proposed by Honorable Chikwanda in the 2016 budget address.

The success of the debt management strategy ultimately lies in the Government’s ability to commit to the Minister’s message of 12 months ago..."we cannot spend what we do not have, we cannot borrow beyond our ability to repay".
**Direct taxes**

**Pay As You Earn**

There has been no change to the annual income tax bands for 2018, therefore the bands for 2017 will continue to apply as follows:

<table>
<thead>
<tr>
<th>Annual income (K)</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 39,600</td>
<td>0</td>
</tr>
<tr>
<td>39,601-49,200</td>
<td>25</td>
</tr>
<tr>
<td>49,201-74,400</td>
<td>30</td>
</tr>
<tr>
<td>Above 74,401</td>
<td>37.5</td>
</tr>
</tbody>
</table>

**Non-deductibility of NAPSA contributions**

The monthly tax relief of K255 provided to taxpayers for contributing to the National Pension Scheme Authority (NAPSA) has been removed. This will increase the tax burden on low to medium income earners considering that the tax bands have not been increased.

Although this measure will increase government revenues, it will impact negatively on taxpayers.

**Pension Reforms**

The Minister of Finance, Honourable Felix C. Mutati (MP) (“The Minister”) has reiterated government’s intention to review the pension system to make it affordable, sustainable and provide wider social protection to the citizenry.

To this end, the Minister indicated that the Social Protection Bill which includes the establishment of a unified pension scheme, a national social security agency among others has been finalised and will soon be laid before Parliament for approval.

It is not clear whether NAPSA will be reformed or a new pension authority or scheme will be established.

The proposed introduction of health insurance after the passage of the Bill should help address the health needs of citizens.
**Direct taxes**

**Property Transfer Tax (PTT)**

**PTT on intellectual property**

The Minister proposes to introduce a 5% property transfer tax on intellectual properties such as trademarks, patents and brands. A definition for “Intellectual Property” will be introduced in the Income Tax Act.

The base for applying the tax is not clear yet, however, given that the existing property transfer tax is calculated on the higher of market value or the realised value, it is likely that the tax will be applied on the same basis on the transfer of the intellectual properties.

The challenge however, will be in determining the fair value of these assets for tax purposes. Intangible assets rarely have any readily available market prices. It will therefore be necessary for guidelines to be provided on the valuation of these intangible assets.

The above measure should broaden the tax base.

**Indirect disposals**

It is proposed that PTT is levied on the transaction value attributable to the Zambian entity where there is an indirect change of ownership of the entity.

This seeks to capture transactions involving the change in ownership of foreign companies that indirectly own assets in Zambian entities. The 5% tax will be applicable on the transaction value attributable to the Zambian entity.

Practically, this could pose challenges in determining the transaction value attributable to the Zambian entity for purposes of computing the PTT liability.

This provision may also create an additional compliance and administrative burden on both companies and the tax authorities. Given this the ZRA should consider providing a concession in the following instances:

- Where the value of the transaction is immaterial; and
- Where there is internal group restructuring.

**Provision for waiver of penalties for non-compliance with PTT**

Currently there are no provisions for mitigation of interest and penalties in the PTT Act. It is therefore proposed that the PTT Act is amended to introduce provisions for waiver of penalties and interest. This measure should enable Zambia Revenue Authority (ZRA) to waive/ reduce penalties and interest under mitigating circumstances.
**Direct taxes**

### Disclosure of related parties

To assist the revenue authority monitor and ensure compliance with transfer pricing regulations and property transfer tax, a provision will be introduced in the Income Tax Act to make it mandatory for taxpayers to disclose all their related parties.

Failure to comply with this provision will attract penalties.

The disclosure of related parties will particularly assist the revenue authority identify indirect disposal of Zambian assets.

### Presumptive tax

The presumptive tax on individuals operating public transport vehicles has been increased by 50%. This is to adjust for inflation given the fees have remained constant for over 10 years.

<table>
<thead>
<tr>
<th>Vehicle sitting capacity</th>
<th>Current tax rate (K)</th>
<th>Proposed rate (K)</th>
</tr>
</thead>
<tbody>
<tr>
<td>64 and above</td>
<td>7,200</td>
<td>10,800</td>
</tr>
<tr>
<td>50-63</td>
<td>6,000</td>
<td>9,000</td>
</tr>
<tr>
<td>36-49</td>
<td>4,800</td>
<td>7,200</td>
</tr>
<tr>
<td>22-35</td>
<td>3,600</td>
<td>5,400</td>
</tr>
<tr>
<td>18-21</td>
<td>2,400</td>
<td>3,600</td>
</tr>
<tr>
<td>12-17</td>
<td>1,200</td>
<td>1,800</td>
</tr>
<tr>
<td>Below 12</td>
<td>600</td>
<td>900</td>
</tr>
</tbody>
</table>

If this increase in presumptive taxes is passed on to commuters, it is more likely to adversely affect the working class and poorer sections of the economy.

This is contrary to governments pro–poor policy. The rates are indicated above.

### Base tax

The base tax has been increased from K150 per annum to K365 per annum. This applies to small businesses which do not/are not capable of keeping records to enable effective tax assessment by ZRA.

The base tax is therefore used where there is insufficient information for the Commissioner-General to determine the actual taxable income earned by small businesses.

With this increment, traders and small businesses will pay K1 a day towards fulfilment of their tax obligations. The ZRA intends to collect the base tax through appointment of agents.

### Taxes collected by tax agents

The taxes collected by tax agents will be broadened to include presumptive tax, turnover tax, withholding tax on rent and other taxes under the Income Tax Act. Increasing the scope of tax agents will reduce the cash flow of taxpayers, and also increase the compliance burden of the tax agents.

### Tax point for the deduction of withholding tax

The points at which withholding tax should be deducted and remitted has been clarified to provide certainty to taxpayers. The points at which withholding tax is due is on the earlier of the following:

(a) The time when income is paid;
(b) The time when income accrues to a person; and
(c) The time when income is in any way due to a person or held to that person’s order or on their behalf.
Direct taxes

Corporate Income Tax

There are no major pronouncements on the corporate tax regime proposed by the Minister. The majority of the changes are aimed at rectifying anomalies and providing further clarification.

We highlight below the key housekeeping measures.

Definition of management or consultancy fees

It is proposed that the definition of management or consultancy fees is amended to clarify that the creation; design; development; installation and maintenance of any information technology solution or system will fall within the definition of management or consultancy fees.

This confirms that all fees for the above information technology solution or system will be subject to withholding tax.

Broadening the scope of taxes that Agents may collect

The housekeeping measures include a proposal to broaden the scope of taxes that the Agents appointed by the Commissioner-General may collect to include presumptive tax, turnover tax and withholding tax on rent.

This measure is aimed at improving the efficiency and effectiveness of tax collections.

Introduction of late submission of penalties for Turnover Tax

The housekeeping measures include a proposed amendment of the Income Tax Act to provide specific penalties of ZMW 75 per month for late submission of Turnover tax return.

The measure is intended to separate the penalties applicable on late submission of Turnover tax return from the penalties applicable on submission of other income tax returns which are more punitive.

Change in definition of resident person

The Minister proposes to revise the definition of residence for persons other than individuals.

Previously, the definition noted that a person other than an individual (e.g. limited company) would be resident in Zambia where the central management and control of the person’s business or affairs are exercised in Zambia.

The amendment will read as follows:

A person other than an individual is resident in Zambia for any charge year if:

the place of effective management of the person’s business or affairs is in the Republic for that year.

Place of central management and control

Generally, it is accepted that the place of central management and control of a business is the place where decisions about the strategic policy and direction of a company are taken: these decisions can generally be distinguished from decisions of a more day-to-day, operational nature.

Traditionally, the place of central management has been deemed to have been the place where board of director meetings are undertaken. The board of directors are generally seen to provide the strategic decisions that steer the operations of the entity.

Updating the tax definitions to align with internationally accepted practice.

Zambia's 2018 National Budget: PwC analysis and outlook www.pwc.com/zm
**Direct taxes**

**Corporate Income Tax**

**Place of effective management**

*The place of effective management* is the place where key management and commercial decisions that are necessary for the conduct of the entity’s business are in substance made.

The place of effective management will ordinarily be the place where the most senior person or group of persons (for example board of directors) makes its decisions i.e. the place where the actions to be taken by the entity as a whole are determined...(OECD publication).

The new definition suggests that the place of effective management and hence the residence of an entity will be where the critical day to day commercial decisions are undertaken.

The above change in definition was essentially for purposes of alignment with the provisions of the OECD model treaty.

As Zambia principally operates a source based system of taxation, this change is unlikely to have a significant impact on the scope of taxation.

**Provide a provisional return filing deadline for a person who registers after 31 March**

The housekeeping measures include a proposal to amend the Income Tax Act to provide for the provisional filing deadline to be 90 days from date of registration for a person who registers for taxes after 31 March. Given this and as an example, an entity that registers for taxes on 1 August in a particular tax year will now be required to submit a provisional return on 30 October instead of 30 September.

**Exemption from Skills Development Levy for donors and persons covered by the Diplomatic and Immunities Act**

The housekeeping measures include a proposal to clarify that donors and persons who are covered by the Diplomatic Immunities and Privileges Act are exempt from paying Skills Development Levy.

**Clarifying the requirements for filing of provisional tax returns following registration for taxes**
Direct taxes
Zambia Development Agency (“ZDA”) incentives

Removal of income tax incentives

The Minister has proposed for the discontinuation of the five-year income tax holidays provided under the Zambia Development Act. Instead the Minister proposed to grant accelerated depreciation for capital expenditure.

The measure is intended to safeguard Government revenues that are eroded through tax holidays.

Current incentives under ZDA

Currently the ZDA provides for the following incentives:

- Corporate Income Tax at 0% for a period of five years starting from the year of commencement of operations of the approved investment;
- No withholding tax payable on the payment of dividends for a period of five years from the year of commencement of operations of the approved investment; and
- Five years exemption from Customs Duty on imports of machinery and equipment acquired for use on the project.

We understand that the discontinuation of the income tax holidays will apply to both CIT and WHT.

The above ZDA incentives had been introduced to encourage investment in priority sectors as identified by the Government. The removal of these incentives is unlikely to attract additional investment in the priority sectors; furthermore the accelerated capital allowances could actually discourage investment in the priority sectors.

Providing accelerated capital allowances will not necessarily benefit new investors that apply for a ZDA investment licence – this is because investors that incur significant capital expenditure upfront will be unable to get full tax relief for the expenditure as the carry forward period for tax losses is restricted to five years.

Discontinuation of ZDA tax holidays
**Indirect taxes**

**VAT**

**Exemption from VAT on unprocessed and semi-processed tobacco**

It is proposed that the sale of unprocessed and semi-processed tobacco will be exempt from VAT.

Under this proposal farmers and tobacco suppliers will not be required to charge output VAT on the sale of unprocessed and semi-processed tobacco. This measure will effectively increase costs for the suppliers as they will no longer be able to claim input VAT on purchases. If however the Minister had proposed zero-rating the sale of unprocessed and semi-processed tobacco, then the suppliers could have reclaimed input VAT on their purchases.

This measure may render local tobacco suppliers less competitive on the global market.

The ZRA note that the proposal is meant to align the treatment of unprocessed and semi-processed tobacco with the treatment of other agricultural produce that is exempt for VAT purposes.

**Introduction of additional penalties**

**Failure to furnish records**

The Minister proposes to introduce penalties in the VAT Act and Customs and Excise Act for taxpayers that fail to furnish records upon request. The ZRA guidance clarifies that this will be applicable to taxpayers who fail to make available supporting documentation during inspections and audits.

This means that taxpayers will need to ensure that all relevant documentation is available for inspection when ZRA conduct their audit. Any delays in providing the relevant supporting documentation will be subject to penalties.

**Failure to issue tax invoices**

It is proposed that penalties will be imposed on suppliers who fail to issue a tax invoice from an approved computer package, a pre-printed tax invoice book or fiscalised cash register.

It is proposed that the following fines will be imposed: 10,000 penalty units (K3,000) for the first offence, 25,000 penalty units (K7,500) for the second offence and 50,000 penalty units (K15,000) for the third and any subsequent offence.

This measure is aimed at enhancing compliance with VAT administrative requirements. It should assist ZRA monitor VAT compliance.

**Return submission and payment due date revised**

It is proposed that the monthly deadline for filing the VAT return and making payment for VAT be changed from the 16th to the 18th of every month. Further, it is proposed that the Withholding VAT returns be filed by the 16th of every month.

It is noted that this measure will allow the withholding VAT agents to file the transactions from their suppliers before the due date for the suppliers’ returns.

Based on the VAT Act, failure to account for output VAT on supplies renders the supplier liable to late payment penalties. The ZRA note that this measure is intended to avoid penalties and interest being charged on the suppliers. It is still not clear how this measure will protect the suppliers in the event that the withholding VAT agent does not account for the withholding VAT within the required time frame.
Indirect taxes
Customs and excise

Introduction of excise duty on cement
The Minister proposes to introduce excise duty of K2 per 50Kg of cement. If this increase in cost is passed on to the consumer it could adversely impact the construction industry.

Introduction of excise duty on methylated spirits
The Minister proposes the introduction of 125% excise duty on methylated spirits, denatured alcohol and undenatured alcohol of heading 2207 as well as the registration of all importers of these. This is intended to harmonise the treatment of undenatured alcohol, methylated spirits and denatured alcohol in order to avoid misclassification thereby preventing revenue leakages.

Customs duty on unmanufactured tobacco
The Minister proposes to increase customs duty on unmanufactured tobacco and tobacco refuse from 15% to 25%. This measure will increase government revenues and should harmonise the treatment with all other types of tobacco which currently attract customs duty of 25%.

The Minister also proposes to introduce specific excise duty on manufactured tobacco and provide for a separate tariff classification for other manufactured tobacco which are currently classified together with cigarettes.

Removal of customs duty on various inputs
The Minister proposes the removal of customs duty on various inputs that are used in the manufacture of stock feed and fish feed.

This measure is intended to support the growth of agro-processing.

Introduction of surtax on selected imported products
The Minister proposes the extension of the list of selected goods on which surtax applies to include locally available items that are currently exempt from surtax. This is intended to support the growth of the domestic industry through local value addition.

The Minister also proposes the removal from the surtax schedule of raw materials that were erroneously included in the schedule.

Introduction of a levy on all imports
Under housekeeping measures a levy of 15% is proposed on all imports (except importation of petty items) which are not accompanied by a corresponding proof of payment through the banking system. This measure is intended to promote the use of bank payments and curb under valuation, money laundering and illicit flows.

This measure may adversely affect importers who purchase supplies on credit. Essentially the tax measure will affect the commercial arrangements that the importers have had with their suppliers.

Reduction of customs duty on bricks
The Minister proposes a reduction of Customs Duty from 15% to 5% on bricks that are used in the construction of furnaces for steel manufacturing plants. This is intended to promote the construction of furnaces that produce steel. It should therefore assist operators in the steel industry.
Indirect taxes
Customs and excise

Increase of customs duty on electric geysers and stoves

The Minister proposes to increase customs duty on electric geysers and stoves to 40% from 25%. This will discourage the use of inefficient electrical appliances, conserve hydro-electricity and encourage the use of alternative energy sources such as solar and gas.

Removal of customs duty on point of sale machines and SIM cards

The Minister proposes that customs duty be removed on importation of point of sale machines and SIM cards. This is intended to promote the use of electronic transaction methods and facilitate the implementation and use of fiscal registers thereby making it easier to collect and monitor taxes.
Non-tax revenue measures

**Introduction of landing rights on television channels**

The Minister proposes to introduce a landing rights charge at the rate of K3,150 per television channel which has less than 35% local content except for educational and scientific channels.

This measure will generate additional revenues for the government and will significantly increase the cost of providing digital terrestrial television services by media entertainment companies. Depending on customer price sensitivity, some or all of the costs may be passed on to subscribers.

This measure is also intended to promote local content.

**Increase of television levy**

Television levy is proposed to increase from K3 per month to K5 per month.

This is currently being collected by ZESCO and is levied with the electricity charges irrespective of whether or not the electricity consumer owns or uses a television.

It is proposed that the collection mechanism be changed such that the levy is collected through a subscriber management service licencing system. This suggests that providers of television programs will now be responsible for collecting and accounting for the television levy.

**Removal of insurance premium levy on reinsurance**

To reduce the cost of insurance, it is proposed that insurance premium levy be removed on reinsurance.

**Motor vehicle registration fee**

It is proposed that all motor vehicles will migrate to the electronic number plate system at a reduced fee of K500 from the current registration fee of K975.

The intention is to replace traditional metal license plates with the electronic number plate system in the long run.

There is little information on the electronic number plate system in the public domain at the moment, however, we understand that this system will enable identification and tracking of vehicles.

The system is expected to enhance security, enable easy payment of various road user charges such as road tolls as well as the renewal of drivers’ licences online.

**Fees and charges increased**

The Minister proposes to revise upwards fees and charges collected by various Government institutions.

Although no details have been provided, this suggests that levies and council taxes are likely to increase.
Mining tax regime

There are no changes to the mining tax regime in the current budget. The current mining tax regime is summarised below.

Corporate income tax

The corporate income tax rate applicable on mining operations is 30%. Variable Profits Tax of up to 15% on taxable income exceeding 8% of gross sales was abolished in June 2016.

Tax losses

Mining operations can carry forward tax losses for a period of ten years. However, mining operations can only utilise tax losses up to 50% of the taxable income earned from mining operations in the year under review.

Capital allowances on capital expenditure

The general rate of capital allowances claimable on plant and machinery is 25%. It is only available once the asset has been brought into use. Capital allowances are also available for other asset classes at prescribed rates.

Mineral royalty

The following mineral royalty rates are applicable:

(a) 5% of the norm value of the base metals produced or recoverable under the licence, except when the base metal is copper;

(a) 5% of the gross value of the energy and industrial minerals produced or recoverable under the licence;

(a) 6% of the gross value of the gemstones produced or recoverable under the licence; and

(a) 6% of the norm value of precious metals produced or recoverable under the licence.

Where the base metal produced or recoverable under the licence is copper the mineral royalty rate payable is:

(a) 4% of the norm value when the norm price of copper is less than USD4,500 per tonne;

(a) 5% of the norm value, when the norm price of copper is USD4,500 per tonne or greater but less than USD6,000 per tonne; and

(a) 6% of the norm value, when the norm price of copper is USD6,000 per tonne or greater.

Policy consistency is critical to create and sustain investor confidence.
## Tax data card

### Corporate tax rates

<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard rate</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Banks</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Telecommunication companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income not exceeding K250,000</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Income exceeding K250,000</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Farming</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Income earned by producers of organic and chemical fertilizers</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Export of non-traditional products*</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Foreign earnings of Sun International Limited</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>All other companies except mining companies</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>New listings on LuSE**</td>
<td>2% discount</td>
<td>2% discount</td>
</tr>
<tr>
<td>New listings on LuSE&gt; 33% shares taken up by Zambians**</td>
<td>5% discount</td>
<td>5% discount</td>
</tr>
<tr>
<td>Listings on LuSE&gt; 33% shares taken up by Zambians**</td>
<td>5% discount</td>
<td>5% discount</td>
</tr>
</tbody>
</table>

### Turnover tax levied on business with turnover below K800,000

(excludes passive income and income earned from consultancy service*, property rental, mining and VAT registered businesses)

<table>
<thead>
<tr>
<th>Turnover Range</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>K 0 - K4,200.00</td>
<td>3% of monthly turnover &gt; K3,000</td>
<td>3% of monthly turnover &gt; K3,000</td>
</tr>
<tr>
<td>K4,200.01 – K8,300.00</td>
<td>K225/month (a)</td>
<td>K225/month (a)</td>
</tr>
<tr>
<td>K8,300.01 – K12,500.00</td>
<td>K400/month (b)</td>
<td>K400/month (b)</td>
</tr>
<tr>
<td>K12,500.01 – K16,500.00</td>
<td>K575/month (c)</td>
<td>K575/month (c)</td>
</tr>
<tr>
<td>K16,500.01 – K20,800.00</td>
<td>K800/month (d)</td>
<td>K800/month (d)</td>
</tr>
<tr>
<td>Above K20,800.00</td>
<td>K1,025/month (e)</td>
<td>K1,025/month (e)</td>
</tr>
<tr>
<td>(a) plus additional 3% of monthly turnover &gt; K4,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) plus additional 3% of monthly turnover &gt; K8,300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) plus additional 3% of monthly turnover &gt; K12,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) plus additional 3% of monthly turnover &gt; K16,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) plus additional 3% of monthly turnover &gt; K20,800</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Carry forward of trading losses

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of years</th>
<th>No. of years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non - mining companies</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Hydro and thermo power generation companies</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Other power generation companies (wind and Solar) excluding wood</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

* Excludes income from export 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 deductions***

<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment allowance on industrial buildings**** (one off)</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Initial allowance on industrial buildings**** (one off)</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Industrial buildings wear and tear allowance</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Commercial buildings wear and tear allowance</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Implements, machinery and plant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Used for farming and agro-processing</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Used for manufacturing, tourism, leasing</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Used for electricity power generation</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Implements, machinery and plant- Other uses</td>
<td>25%</td>
<td>25%</td>
</tr>
</tbody>
</table>

### Motor vehicles

<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Non-commercial</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

### Farming

<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm improvement/ Farm works allowance</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

### Advanced Income Tax (on importation of goods in the absence of a valid tax clearance certificate)

<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced Income Tax (on importation of goods in the absence of a valid tax clearance certificate)</td>
<td>15%</td>
<td>15%</td>
</tr>
</tbody>
</table>

---

* 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.
Corporate Income Tax rate | 2018 | 2017
--- | --- | ---
**Mining Profits**
Profits earned from mining operations (for both base metals and industrial minerals) | 30% | 30%
Mineral Processing | 35% | 35%

**Mineral Royalty Rate**
On *norm value* of minerals/precious metals under licence:
Base metals excluding copper | 5% | 5%
Precious Metals | 6% | 6%

On *gross value* of gemstones/energy minerals under licence:
Energy/Industrial Minerals | 5% | 5%
Gemstones | 6% | 6%

On *norm value* of copper:
Norm Price of copper< USD4,500/tonne | 4% | 4%
Norm Price of copper> USD4,500/tonne<USD6,000/tonne | 5% | 5%
Norm price of copper>6,000/tonne | 6% | 6%

Industrial Minerals: includes a rock or mineral other than gemstones, base metals, energy minerals or precious metals used in their natural state or after physical or chemical transformation. Examples include salt, sand, clay, talc, laterite, gravel, potassium minerals, granite and magnetite.

**Withholding Tax on dividends paid by companies carrying on mining operations**
<table>
<thead>
<tr>
<th>Dividend</th>
<th>Resident</th>
<th>Non-resident</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Income Tax Individuals**

**2018 Monthly income bands**

<table>
<thead>
<tr>
<th>Income from K</th>
<th>Income to K</th>
<th>Tax rate %</th>
<th>Tax on band (maximum) K</th>
<th>Cumulative tax on income (maximum) K</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>0</td>
<td>3,300.00</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Next</td>
<td>3,300.01</td>
<td>4,100.00</td>
<td>25</td>
<td>200</td>
</tr>
<tr>
<td>Next</td>
<td>4,100.01</td>
<td>6,200.00</td>
<td>30</td>
<td>630</td>
</tr>
<tr>
<td>Over</td>
<td>6,200.00</td>
<td>37.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**2017 Monthly income bands**

<table>
<thead>
<tr>
<th>Income from K</th>
<th>Income to K</th>
<th>Tax rate %</th>
<th>Tax on band (maximum) K</th>
<th>Cumulative tax on income (maximum) K</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>0</td>
<td>3,300.00</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Next</td>
<td>3,300.01</td>
<td>4,100.00</td>
<td>25</td>
<td>200</td>
</tr>
<tr>
<td>Next</td>
<td>4,100.01</td>
<td>6,200.00</td>
<td>30</td>
<td>630</td>
</tr>
<tr>
<td>Over</td>
<td>6,200.00</td>
<td>37.5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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:**

<table>
<thead>
<tr>
<th>Engine size</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1,800 cc</td>
<td>K18,000 p.a.</td>
<td>K18,000 p.a.</td>
</tr>
<tr>
<td>&gt; 1,800 cc, &lt; 2,800 cc</td>
<td>K30,000 p.a.</td>
<td>K30,000 p.a.</td>
</tr>
<tr>
<td>&gt; 2,800 cc</td>
<td>K40,000 p.a.</td>
<td>K40,000 p.a.</td>
</tr>
</tbody>
</table>
### Tax data card

#### Withholding Tax (WHT)

<table>
<thead>
<tr>
<th>Description</th>
<th>Resident</th>
<th>Non Resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend</td>
<td>15%*</td>
<td>15%*</td>
</tr>
<tr>
<td>Interest</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Interest from a LuSE listed Property Loan Stock Co</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td>Discount income (Interest) on Government Bonds</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Coupon Income (Interest) on Government Bonds</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Management or consultancy fee</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Royalties</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Rent from a source within the Republic</td>
<td>10%**</td>
<td>10%</td>
</tr>
<tr>
<td>Commissions</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Non-resident construction and haulage contractor</td>
<td>n/a</td>
<td>20%</td>
</tr>
<tr>
<td>Non-resident entertainers/sports persons fees</td>
<td>n/a</td>
<td>20%</td>
</tr>
</tbody>
</table>

*Note: The above rates are unchanged from 2017.*

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

**This is the final tax on income from rentals.

#### Tax Treaties

Zambia has tax treaties with the following countries:

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

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

**Status of tax treaty currently uncertain

***These treaties are currently under review

#### 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: K800,000 p.a.

**Payment- due date**

- Supply of taxable goods & services: 18 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)*

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land (including buildings)</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Shares**</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Transfer or sale of mining right</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Intellectual property</td>
<td>5%</td>
<td>N/A</td>
</tr>
<tr>
<td>Shares listed on the LUSE</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*PTT is paid by reference to the nominal value of realised and open market value whichever is greater

**Effective 1 January 2018, it is proposed that PTT at 5% will apply on indirect change in ownership or control of a Zambian entity.

#### Insurance Levy

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charged on Insurance Premiums*</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

*The 3% levy is not applicable on reinsurance services effective 1 January 2018.
Zambia Development Agency
Concessions for Priority Sectors
For the charge years up to 2017, 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 2017:

- 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.

- There are proposals to discontinue the 5 year income tax holiday effective 1 January 2018. This will be replaced by accelerated capital allowance deductions for qualifying investments in priority sectors. It is not clear whether the removal of the incentives will affect just CIT or both CIT and WHT. Further clarification is required from ZRA.

Clarification is needed on whether removal of the incentives will affect companies that have already been granted the exemption which have not yet expired.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Engine size &lt; 1,500 cc</td>
<td>K70 p.a.</td>
<td>K70 p.a.</td>
</tr>
<tr>
<td>Engine size &gt; 1,500 cc, &lt; 2,000 cc</td>
<td>K140 p.a.</td>
<td>K140 p.a.</td>
</tr>
<tr>
<td>Engine size &gt; 2,000 cc, &lt; 3,000 cc</td>
<td>K200 p.a.</td>
<td>K200 p.a.</td>
</tr>
<tr>
<td>Vehicles propelled by non-pollutant energy sources</td>
<td>nil</td>
<td>nil</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Type of Vehicle</th>
<th>Tax per Vehicle per annum (2018)</th>
<th>Tax Per Vehicle per annum (2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>64 Seater and above</td>
<td>K10,800</td>
<td>K7,200</td>
</tr>
<tr>
<td>50-63 Seater</td>
<td>K9,000</td>
<td>K6,000</td>
</tr>
<tr>
<td>36-49 Seater</td>
<td>K7,200</td>
<td>K4,800</td>
</tr>
<tr>
<td>22-35 Seater</td>
<td>K5,400</td>
<td>K3,600</td>
</tr>
<tr>
<td>18-21 Seater</td>
<td>K3,600</td>
<td>K2,400</td>
</tr>
<tr>
<td>12-17 Seater</td>
<td>K1,800</td>
<td>K1,200</td>
</tr>
<tr>
<td>Below 12 Seater</td>
<td>K900</td>
<td>K600</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>2018 Deadlines</th>
<th>Penalty</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Tax - Companies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Provisional tax</strong></td>
<td>Provisional tax: Late filing of return: K600 per month or part month</td>
<td>N/A</td>
</tr>
<tr>
<td>Return deadlines:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Provisional Tax Return: 5 March 2018 (manual submission)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 March 2018* (electronic submissions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Returns for companies registered for income tax after 31 March are due 90 days from the date of registration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revision of Provisional Tax Return</td>
<td>Late payment of tax: 5% per month or part month Late payment: 2% + DR*</td>
<td>N/A</td>
</tr>
<tr>
<td>30 June 2018, 30 September 2018 &amp; 31 December 2018 (where applicable)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment deadlines: Within 10 days following the end of the quarter</td>
<td>Late filing of return: K102 per month or part month</td>
<td></td>
</tr>
<tr>
<td><strong>Final tax return &amp; payment</strong></td>
<td>Late filing of return: K600 per month or part month</td>
<td>N/A</td>
</tr>
<tr>
<td>Deadline: 5 June 2019 (manual submissions) 21 June 2019 (electronic submissions)</td>
<td>Late payment of tax: 5% per month or part month Late payment: 2% + DR*</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Note: 2/3 of the total tax liability must be paid by the final quarter or else the 25% penalty applies.</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Final tax return &amp; payment</strong></td>
<td>Late filing of return: K600 per month or part month</td>
<td>N/A</td>
</tr>
<tr>
<td>Deadline: 5 June 2019 (manual submissions) 21 June 2019 (electronic submissions)</td>
<td>Late payment of tax: 5% per month or part month Late payment: 2% + DR*</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2018 Deadlines</th>
<th>Penalty</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Withholding Tax (WHT)</strong></td>
<td>Late payment of WHT: 5% per month or part month Late payment: 2% + DR*</td>
<td>N/A</td>
</tr>
<tr>
<td>Filing &amp; payment deadlines: Within 14 days after the end of the month of accrual/payment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withholding VAT agents will be required to submit returns within 16 days after the accounting period effective 1 January 2018.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Payroll (PAYE)</strong></td>
<td>Late payment of PAYE: 5% per month or part month Late payment: 2% + DR*</td>
<td>N/A</td>
</tr>
<tr>
<td>Filing &amp; payment deadlines: Electronic returns to be filed within 10 days after the end of the month of accrual/payment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manual returns to be filed within 5 days of after the end of the month</td>
<td>Late filing of PAYE return: K800 per month or part month</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>VAT</strong></td>
<td>VAT late filing of return: Daily penalty – higher of K300 and 0.5% x tax payable VAT late payment of tax: Daily penalty – 0.5% x tax payable</td>
<td>Late payment: 2% + DR</td>
</tr>
<tr>
<td>Filing &amp; payment deadlines: 18 days*** after the end of the accounting period*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*All annual Income Tax, PAYE and VAT returns should be submitted electronically to the ZRA except for certain small businesses with minimal transactions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Key**
- DR = Bank of Zambia discount rate
- ** accounting period means the month following the month of registration and each succeeding calendar month
- *** Withholding VAT agents will be required to submit returns within 16 days after the accounting period effective 1 January 2018.
### Tax data card

#### Deadlines and Penalties

<table>
<thead>
<tr>
<th>2018 Deadlines</th>
<th>Penalty</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover Tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Filing &amp; payment deadlines: Within 14 days after the end of the month of accrual/payment</td>
<td>Late payment of tax: 5% per month or part month</td>
<td>Late payment: 2% + DR*</td>
</tr>
<tr>
<td>late filing of return: K75 per month or part month</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
### Foreign Exchange Rates Used by the Zambia Revenue Authority – January to September 2017

<table>
<thead>
<tr>
<th>Period</th>
<th>Currency</th>
<th>Exchange Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1st -15th</td>
<td>15th –end</td>
</tr>
<tr>
<td>January</td>
<td>GBP</td>
<td>12.1234</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>9.8705</td>
</tr>
<tr>
<td></td>
<td>ZAR</td>
<td>0.7255</td>
</tr>
<tr>
<td>February</td>
<td>GBP</td>
<td>12.3943</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>9.9033</td>
</tr>
<tr>
<td></td>
<td>ZAR</td>
<td>0.7356</td>
</tr>
<tr>
<td>March</td>
<td>GBP</td>
<td>11.7917</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>9.4807</td>
</tr>
<tr>
<td></td>
<td>ZAR</td>
<td>0.7320</td>
</tr>
<tr>
<td>April</td>
<td>GBP</td>
<td>12.0282</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>9.6550</td>
</tr>
<tr>
<td></td>
<td>ZAR</td>
<td>0.7195</td>
</tr>
<tr>
<td>May</td>
<td>GBP</td>
<td>12.0725</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>9.3531</td>
</tr>
<tr>
<td></td>
<td>ZAR</td>
<td>0.7028</td>
</tr>
<tr>
<td>June</td>
<td>GBP</td>
<td>11.8578</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>9.2530</td>
</tr>
<tr>
<td></td>
<td>ZAR</td>
<td>0.7078</td>
</tr>
<tr>
<td>July</td>
<td>GBP</td>
<td>11.9175</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>9.1691</td>
</tr>
<tr>
<td></td>
<td>ZAR</td>
<td>0.7048</td>
</tr>
<tr>
<td>August</td>
<td>GBP</td>
<td>11.6774</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>8.8950</td>
</tr>
<tr>
<td></td>
<td>ZAR</td>
<td>0.6835</td>
</tr>
<tr>
<td>September</td>
<td>GBP</td>
<td>11.8308</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>9.1642</td>
</tr>
<tr>
<td></td>
<td>ZAR</td>
<td>0.7054</td>
</tr>
</tbody>
</table>

**Key:**
- GBP – Great British Pound
- USD – United States Dollar
- ZAR – South African Rand
**Sector Analysis**

**Financial Services**

**Overview**

The Zambian financial services sector comprises 19 registered commercial banks, 24 registered life and general Insurance providers, 242 registered pension schemes, and 36 microfinance institutions. There has been a continued decline in the contribution from financial institutions & insurance providers towards GDP (2014: 15.1%), (2015: 12.1%) and (2016: 9.1%).

This was generally a consequence of tight liquidity conditions, higher lending rates, reduced lending and rising non-performing loans (NPLs). The tight monetary policy stance coupled with increased Government borrowing (creating competition with private sector credit) and sluggish economic growth were overarching factors that influenced the sector’s declining contribution to GDP. However, this is expected to gradually improve in line with the revised fiscal and monetary policy strategy for economic growth.

Despite this, subdued investment in the sector is likely to constrain the sector’s ability to achieve its growth ambition.

---

**Commercial banking**

There have been significant strides in both the fiscal and monetary policies in 2017 which have aided stability in the banking sector.

Interest rates trended downwards in the first half of 2017 as inflation decelerated and monetary conditions eased following three successive reductions in the Monetary Policy Rate (MPR) and Statutory Reserve Ratio (SRR) in February, May and August 2017. Net Government spending and purchase of foreign exchange by the Bank of Zambia, to build-up international reserves, added more liquidity to the money market and contributed to the easing of liquidity conditions. The latter, coupled with appropriate open market operations by the Bank of Zambia, resulted in the interbank rate declining to 12.2% in the first half of 2017 from 15.8% in the last half of 2016 ending the first half of the year well within the Policy Rate corridor. Similarly, the weighted average treasury bills and the Government bond yield rates declined to 14.9% and 18.1% from 23.7% and 25.0% respectively.

Although Bank of Zambia reduced the MPR from 15.5% to 11%, average lending rates remained relatively high at 26.6% at end of June 2017, a slight decline from 29.5% at end of December 2016. These relatively high lending rates continue to constrain affordability of credit, a key ingredient to economic growth.

The industry experienced an increase in NPLs with loan impairment charges and the NPL ratio increasing to K433 billion in 2016 (2015: K295 billion) and currently stands at 12% (2016: 9.7%) and (2015: 7.3%) respectively. To manage their exposure to credit risk, banks increased their investment in the Government securities and exercised caution in extending credit to certain sectors. According to PwC’s 2016 banking survey, the banks indicated that agriculture was the most affected and this trend has largely remained unchanged in the first half of 2017. However, as interest rates continue on a downward trajectory, it is expected that the credit risk appetite of lenders will improve as the borrower credit profiles improve.
Sector Analysis
Financial Services (continued)

According to the Zambia ICT report 86% of Zambians aged 10 and above do not have a bank account and this largely informs the widely held view that the majority of Zambians remain unbanked. Leveraging technology to stimulate growth is a key priority for all players in the market. The companies that adapt best to technological changes and make the best use of complementary service providers, such as mobile phone companies, stand a better chance of achieving their growth ambitions.

Any meaningful improvements in this area will have to be backed by significant investments in both technology and human resources.

In the Medium Term Expenditure Framework and 2018 Budget, the Government signaled its intention to prioritise agriculture, mining, manufacturing and tourism as means of achieving its objective of economic diversification and job creation.

Specifically, the Government is seeking to diversify from an economy heavily dependent on mining to one that is dependent on agriculture. A shift to an agri-dependent economy provides significant opportunities to the banking sector. To apply some context to the scale of the opportunity, it is estimated that at 50% of the active labour force, work in agriculture related industries with most being employed as small-scale farmers or family members helping on farms.

Looking ahead the banking sector will continue to contend with a number of challenges, some informed by risks inherent within the sector and others as a consequence of broader macro-economic factors. These challenges include:

- Ability and commitment of the Government to maintain fiscal discipline.
- Lagging effects of subdued economic activity.
- Cyber security.
- Financial inclusion.
- Sustainability of concentrated market structure with the top six banks commanding over 70% of both total assets and deposits.

Banks have an opportunity to achieve their growth ambitions through:

- Embracing technology as a platform for developing efficient and innovative products, such as the road toll cash collections solutions;
- E-voucher solutions;
- Consolidation of regulation to reduce the cost of compliance; and
- Cost-optimisation.

The Government is in the process of reviewing the Bank of Zambia Act, the National Payments Systems Act and Insolvency Act. Work is on-going to draft the Depositor Protection Bill, all aimed at supporting the financial services sector.
Sector Analysis
Financial Services (continued)

**Insurance**

Market premiums are estimated at K2.5 billion, with general insurance premiums contributing K1.7 billion and life premiums contributing K864 million. The challenges are increased and intense competition from new entrants in the market which has led to the underpricing of insurance products; premium leakage in the country with significant amounts of insurance policies being placed outside Zambia; industrywide legacy debt collectability which has caused a heightened credit risk and has led to significant debts write offs.

The anticipated repeal and replacement of the Insurance Act is a very positive move as it will help spur growth in the sector as the new Act aims to improve governance and financial soundness in the sector. While mastering regulation is still a challenge, there’s a growing recognition that survival and success demand a fundamental overhaul of costs, technological capabilities and innovation capacity in the sector.

Insurance penetration in Zambia received a huge boost following approval by cabinet to roll out the Weather Index Insurance to the over 1 million targeted farmers at a premium of K100 per policy (Total premiums of over K100 million) that was to be covered under the full implementation of the e-voucher Farmer Input Support Program (FISP).

This programme has since been shifted to the electronic voucher system during 2017. This will further spur growth of the sector and it is expected that the contribution to GDP will grow in nominal terms.

**Pensions**

Pensions as an industry can contribute significantly towards economic growth by engendering a savings culture which will in turn bolster availability of funds for investment. However, to achieve this goal, the sector needs to undergo considerable reform.

Reforms are necessary to allow for new entrants into public schemes, revise the employer and employee contributions upwards, facilitate private sector management of pension funds and revise the benefit scheme to ensure longterm protection for pensioners. The new Protection Bill to be tabled in parliament is aimed at tackling these issues.

There is the need for additional reform to further enhance development of financing instruments that will attract pension funds to increase investment to help boost participation in the capital market.

**Capital markets**

The Share Index on the The Lusaka Securities Exchange (LuSE) gained following more positive sentiments from improvements in economic activity, particularly in the manufacturing, energy, and banking sectors. In the first half of 2017, the LuSE All-Share index (LASI) rose by 13.0% to K4,760 million while market capitalisation grew by 4.0% to K60 billion. The recovery in the manufacturing, energy and banking sectors was driven by improved electricity supply and a stable exchange rate, increased revenues and higher interest rate spreads. The LuSE also recorded a net inflow of foreign portfolio investment of USD1.9 million for the six month period to June 2017 compared to USD0.03 million recorded in six month period December 2016.

The size of capital markets is small measured in terms of their capitalization relative to GDP. In recent years, arguably the most significant challenges faced by capital markets relate to the fiscal and monetary environment. High interest rates and a considerable increase in Government borrowing had acted as double-edged sword by: (i) squeezing corporate earnings; and (ii) diverting investment funds towards high yielding fixed income securities.

Progression to greater reliance on market finance is key in filling long-term financing gaps and depends on understanding to what extent financing provided by the informal market is performing roles that might be assumed by funding vehicles that are, or could be, available on the public market.
Sector Analysis
Mining

The mining sector continues to contribute significantly to the Zambian economy, accounting for 14.3% of the national GDP in first quarter of 2017 compared to 12.9% over the period in 2016.

Copper production for 2017 is projected at 850,000 tonnes which represents an increase of 10% over 2016. Total copper exports increased by 9% from 460,264 tonnes in the first half of 2016 to 499,987 tonnes in the first half of 2017. Average copper prices per ton also increased by 22% from USD4,699 to USD5,748 over the same first half of 2016 and 2017 respectively. Consequently, USD2.9 billion in exports was realised in the first half of 2017 compared to USD2.1 billion in the first half of 2016 representing an increase of 38%.

The Government projects increased revenue from the mining sector in the second half of the year on account of stronger copper prices which have averaged USD6,478 in August 2017 and are expected to remain at a similar level for the rest of the year. This will result in increased mineral royalty tax collections as the upper MRT rate of 6% would be triggered.

This improved performance is however dependent on stability in the generation and supply of electricity to the end of 2017 to allow mining companies meet their production targets.

Primary to growing investment flow into the economy is policy consistency which ensures predictability. The Government has committed to consistency in policies governing the mining sector. This commitment is apparent in the 2018 budget as the Government has not proposed major policy changes to the mining tax regime or any other regulations. This should allow mining companies to plan for the future with certainty.

In order to improve the tax collection potential from mining exports, the Government in 2017 successfully implemented the online system that linked large scale copper mines, the Ministry of Mines and Zambia Revenue Authority, to aid the reporting and tracking of monthly production levels. In 2018, the Government plans to include the monitoring of exports, imports and trade permits on the online system.

During the year, the Government proposed an average electricity increment of 29% for mining firms from an average of between USc6/kWh to USc8/kWh as negotiated by individual firms under the power supply agreements (PSA) to USc9.3/kWh. The mining firms initially rejected this increase and requested a Cost of service study be conducted by the Government before they accede to them. This impasse resulted in a number of mining companies having their supply restricted below their demand requirements which negatively impacted production.

After significant negotiations, the mining companies agreed to the new tariffs with Mopani Copper Mines being the latest to do so in September 2017. Further electricity tariff adjustments would be implemented after completion of the cost of service survey, which is expected to be completed at the end of 2017.
In the medium term, the Government intends to grow and also diversify mining contribution to the economy to not only include copper mining, but also increased contribution with focus on gemstone mining and industrial minerals among others.

To achieve this, the Government has planned in 2018 onwards, to carry out mineral surveys for gemstones, clay and limestone in North-Western, Copperbelt and also Luapula Provinces respectively. Once the mineral survey is completed, it shall provide investors with the much needed information for further exploration, but also ensure land use planning takes into account any potential areas for prospective gemstone mining.

In addition, to support the mining sector’s commodity transportation challenges in the medium to long term, the Government through the Minister of Housing and Infrastructure Development announced the acquisition of a 30% equity interest in North-West Rail Company Limited a company which owns exclusive rights to build, operate and maintain a new railway line from Chingola to the Angolan border.

Zambian energy sector is denominated by electricity and petroleum. The Government’s priority in the electricity sub-sector is increasing the energy mix through promotion of off-grid electricity generation and alternative energy sources.

Electricity generation improved by 23.7% in 2017 to an average of 1,610 MW (9.4 million MW hours) as at August, compared to 1,301 MW (7.6 million MW hours) for the same period in 2016. This is as a result of improved hydro dam water levels at Kariba and Kafue gorge and completion of the Maamba Thermal Coal Plant and Itezhi tezhi upgrade projects. This resulted in an additional 332 MW in 2017. The second phase of 300 MW on the Maamba Thermal Coal Plant is expected to commence in 2018.

The increase in electricity generation has resulted in narrowing of the electricity deficit to 340 MW, from the 2016 electricity deficit of 839 MW. The country continues to import an additional 75 MW of electricity from Mozambique till December 2017.

Current rainfall projections for 2018 to 2020 indicate a steady increase, which would help mitigate the electricity deficits experienced in 2016 and 2017, as there is currently enough un-utilised installed electricity generation of over 1,217 MW (1,610 MW generated electricity against 2,827 MW installed generation capacity).

In 2018, to enhance supervision and regulation of the energy sector, and promote small and medium private sector investment in renewable energy, the Government plans to enact the Energy Regulation Bill, the Electricity Bill and the Renewable Energy Feed-In Tariff Regulatory Framework which targets to add 200 MW in the first phase.
Sector Analysis
Energy (continued)

The Government implemented its planned 2017 proclamation of ensuring that electricity tariffs for both Households and Corporate houses, with focus on the mining industry, move to cost reflective tariffs to create a conducive business environment which attracts investments in power generation. The increments in tariffs is as below:

In the long term, Zambia intends to tap into its potential to produce up to 6,000 MW of hydropower, and also diversify its energy mix into geothermal, solar, wind and nuclear, having embarked on building 17 hydro power generation plants, one thermal plant and solar projects by 2030 with most of them to be completed between end of 2017 and 2022.

The major projects are as per table below:

To enhance electricity trade, improve power security, ensure reliability of supply and foster regional integration of power from Cape to Cairo, the Government has continued to work on linking Zambia to the Southern and Eastern African regions through the Zambia-Tanzania-Kenya inter-connector project.

In 2018, with currently only 4% of the rural population with access to electricity, the Government has allocated K251.3 million for rural electrification, to improve access to electricity. Under the rural electrification programme, 19 grid extension projects are being implemented with 7 of them completed as at 31 December 2016.

In the petroleum sub-sector, Zambia still continues to be highly dependent on the old INDENI Refinery located in Ndola, which continued to refine more than 50% of the national petroleum finished products demand in 2017.

The remainder of the national petroleum demand is satisfied by importation of finished products by the Government which is complemented by the Oil Marketing Companies (OMCs).
Sector Analysis
Energy (continued)

The Energy Regulation Board revised fuel as below:

<table>
<thead>
<tr>
<th></th>
<th>2017 K/litre</th>
<th>2016 K/litre</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrol</td>
<td>11.67</td>
<td>13.78</td>
<td>-15%</td>
</tr>
<tr>
<td>Diesel</td>
<td>9.87</td>
<td>11.4</td>
<td>-15%</td>
</tr>
</tbody>
</table>

This price reduction is fairly in line with the 16% price reduction in Murban Crude oil, which is mostly used in Zambia, from USD56.60 per barrel in March 2017 to close at USD47.86 per barrel in July 2017.

In 2018, the Government plans to dis-engage from the Crude oil procurement process, aimed at improving efficiency, and reduce some costs for petroleum products. The Government will also, through the Industrial Development Corporation (IDC), conduct a situational analysis of State Owned Enterprises (SOEs) which include energy firms such as Zambia Electricity Supply Company (ZESCO), INDENI and TAZAMA pipeline, with the view to recapitalise well performing SOEs, unbundle operations from generation, transmission and distribution, and hiving off those not viable.

In the medium term, the Government intends to attract investment in the extraction of crude oil within Zambia, with an emphasis to grant exploration licenses, but also continue to hasten the review of the Petroleum (exploration and production) Act Cap 440 of the Laws of Zambia.
Sector Analysis

Agriculture

Though agriculture is the largest employer, the sector’s low contribution to GDP calls for radical strategies to improve production and productivity as well as value addition along sub-sector value chains.

The sector is critical for achieving diversification, economic growth and poverty reduction in Zambia.

The country recorded a maize bumper harvest of over 3.6 million metric tonnes in the 2016/2017 season resulting in the Government lifting the ban on export of maize and maize products.

The 2016/2017 FRA maize price was set at K60 per 50 kg bag but is currently under review after receiving stakeholder feedback.

The Government is aware of the challenges that the farmers are facing in marketing their produce. As a way of addressing these challenges, the Government will reform the Food Reserve Agency away from commodity marketing to focus only on strategic food reserve purchases.

In the livestock sub-sector, there was an increase in the livestock population to 4.9 million in June 2017 from 4.3 million compared to the same period in 2016.

Production in the fisheries subsector grew to 77,029 MT for the period January to June 2017 from 56,241 MT in the same period in 2016.

During the 2017/2018 season, the Government will implement the following measures aimed at raising farmer productivity as well as diversifying the sector:

- Introduce and develop farm blocks model of which three will come on board in 2018. These are Copperbelt, Muchinga and Northern Provinces. This will allow smallholder and emergent farmers to benefit from technology transfer and have access to ready markets.
- Facilitate the construction of a tractor assembly plant by URSUS, a leading European manufacturer of tractors to support mechanisation improvements.
- The Government has obtained financing of USD40 million from EXIM Bank of India that will be used for agriculture mechanisation.
- Increase the area under irrigation, expand hectarage under cultivation and increase the number of our people involved in farming and enhanced extension services.
- Improve fish production by establishing 17 Government and 11 community-based fingerling production centres across the country.
- Complete the remaining 8 artificial insemination centres which are at various stages of development.
- Facilitate access to both local and foreign markets for livestock products. One such initiative is the exportation of one million goats per annum to the Middle East.
- Enhance access to finance for Small and Medium Enterprises, by engaging financial institutions in order to increase credit to farmers by using movable assets as collateral in line with the provisions of the Movable Assets Act.
- Establishment of a mango processing facility in Eastern Province; investment in a palm oil plantation and palm oil processing plant in Luapula province; investment in a cashew nut project in western province and re-establishment of a pineapple processing facility in north-western province.
- Remove customs duty on various inputs that are used in the manufacture of stock feed and fish feed.

Despite the ambitious plans, the Government has reduced the budget allocation to this priority sector from K3.8 million in 2017 to K2.7 million for 2018.
**Sector Analysis**

**Manufacturing**

Manufacturing continues to be a focus area for the country in the medium and long term. This is borne out of the fact that a buoyant manufacturing sector is key to building a strong export-oriented economy that can create resilience to both external and domestic shocks in the economy.

In the medium term, manufacturing’s contribution to GDP is expected to increase to 8% compared to the average of 7.5% for the period 2011-2016.

In order to grow the contribution to GDP the following will be implemented:

- Establish industrial clusters in each district that will provide industrial workshops for the manufacture of various products.
  - Promotion of Multi-Facility Economic Zones and Industrial Parks. To this end works for the Chambishi, Lusaka South, Lusaka East and Lumwana MFEZs are expected to be completed while, the Government will also continue to work with the private sector to develop the Kalumbila Multi-Facility Economic Zone in North-Western Province as well as the Chembe and Kafue Iron & Steel in Luapula and Lusaka respectively.

  - Technology and skills development and Micro Small and Medium Enterprises (MSMEs) development and economic empowerment.

  - Making available financing for sectors such as manufacturing, through the encouragement of financial institutions to provide the much needed cheaper financing. In this regard, the Government is in the process of engaging with the private sector to ensure that MSMEs are able to make use of movable assets as collateral.

  - In addition, the continued recapitalisation of the Government financial institutions such as Development Bank of Zambia (DBZ) and National Savings and Credit Bank (NATSAVE) is expected to provide further financing.

**Education**

Zambia has one of the highest rates of public investment in education in Africa at 5% of gross domestic product (GDP) and 16% of total state expenditure. Apart from disbursements for debt repayment and road contractors, the educational sector is the Government’s leading expenditure. The Government’s spending on basic education during 2016/17 is estimated at over K11 billion. The major objective is the reduction of the teacher-pupil ratio, which according to the 2015 education statistical bulletin was 42.7 pupils/teacher at primary school and 35.2 pupils/teacher at secondary school level.

In 2018, the education budget represents 18.6% of the projected budget, an increase of two% from 2017. The key focus is completion of various school infrastructure projects currently under construction at both primary and secondary levels and recruitment of teachers.

This is primarily important as Zambia has been faced with high illiteracy rates despite a large proportion of the budget expenditure being spent on education. The ratio is expected to drop as the Government continues to focus on construction and rehabilitation of education facilities at all levels, provisions of equipment and learning materials, recruitment of teachers and creating sustainable financing mechanisms for higher learning institutions.
Sector Analysis
Education (continued)

In 2017, with regards to the general education sub-sector, the priority areas were to increase access and participation; quality and relevance of education; and equity, whilst, the focus of the skill development sub-sector was to increase access to university education and Technical Education, Vocational and Entrepreneurship Training (TEVET). These continue to be key priority areas as pronounced in the recently rolled out 7th National Development plan (7NDP). On 23 September 2017, the Government announced recruitment of 2,000 additional teachers which was to be undertaken before the end of the year.

In an effort to further increase access to general education, the Government has also continued to support incapacitated households through the public welfare assistance scheme. The scheme is enabling poor and vulnerable individuals to access the much needed health and education services. This is in addition to establishing a Board to oversee the loan scheme for tertiary education students introduced in the prior year.

To enhance the quality of training and increasing its relevance to the needs of various industries, the Government implemented a two tier system offering learners early career choices between academic or vocational pathway.

Water Supply and Sanitation

Budget allocation to the water and sanitation sector has increased from K391 million in 2017 to K565 million in the 2018 budget. This represents an increment of 45%. The 2017 investment resulted in the drilling of 1,340 boreholes and construction of 10 small water schemes in the rural areas. A further 600 boreholes have been rehabilitated.

As per the pillar four of the 7th National Development Plan (7NDP), enhancing human development, the Government of Zambia is focused on the need to increase levels of access to clean water supply and sanitation services for people in rural and urban areas of Zambia. To ensure provision of reliable and safe water and sanitation services, the Government is set to continue with the construction and rehabilitation of water and sanitation infrastructure. This is well in line with the Medium Term Expenditure Framework (MTEF).

In improving water supply and sanitation, the Government received support from a number of partners, most notably the African Development Bank and Millennium Challenge Account (MCA). Currently the MCA is funding the Kafue Bulk Water Supply Improvement Project aimed at increasing water supply to 110 million litres of water per day to Lusaka and surrounding areas.

The Government is embarking on a project aimed at building a second Kafue bulk water supply line to Lusaka including a new treatment plant. It also plans to prioritise the implementation of the Water and Sanitation Project in Luapula Province with financing from African Development Bank which will focus on improving water and sanitation services in informal settlements.

Further, the Government, through the Water Resource Management Authority (WARMA), plans to strengthen measures for effective water resource management so as to safeguard the country’s water resources.

As per the Budget speech by Hon. Mutati, the focus in 2018 is on unbundling arrears owed to contractors and suppliers to ensure that the ongoing projects are completed, hence the increased allocation to the sector.
Sector Analysis
Health

The Government continues to implement its plan to achieve universal health coverage in line with the third Sustainable Development Goal, ‘good health and well-being for all’. The focus has been on strengthening health systems with emphasis on primary health care including Human resource for health (HRH), promoting innovative health financing strategies and rehabilitation of health facilities and training schools.

With regard to Human Resources for Health (HRH), the Ministry of Health (MoH) as of December 2016 had an approved establishment of 63,057 positions, but only 42,515 were filled, representing 67% of the approved establishment. During the year 2016/2017, the Ministry of Health recruited a total of 7,400 health personnel. The Government has committed to recruit an additional 1,000 health personnel in 2018.

Positive strides were also made in infrastructure upgrade and construction. At the end of August 2017, a total of 275 out of planned 350 health posts were built and are now operational. Furthermore, 35 district hospitals were under construction, while Matero and Chilenje Health Facilities have been upgraded.

The University Teaching Hospital (UTH) and provincial hospitals were undergoing modernisation with the installation of computerized tomography (CT) scans, mammography equipment. Intensive care units (ICU) in some selected general hospitals had also been installed.

The Government will introduce measures to strengthen and build capacity in the manufacturing of drugs locally to assure adequate supply of drugs in the country. These measures will also create job opportunities in the health sector.

In addition, to ensure commodity (drugs and medical supplies) security in the country, significant investment has been made to upgrade Medical Stores Limited (MSL) infrastructure and to establish regional hubs. In partnership with cooperating partners such as Global Fund and United States Government, there are various hubs which are currently under construction such as Luanshya, Mpika and Mansa hubs. An additional sub-hub will be constructed in Kabompo.

In 2018, the Government will establish a Social Health Insurance (SHI) Bill which will be presented in Parliament. The Social Health Insurance (SHI) scheme, which is a strategy under health care financing, is regarded by the Ministry of Health as a major priority. It is envisaged that the SHI will increase the resource envelope for health and enhance Universal Health Coverage.

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Sector Analysis
Information and Communication Technology (ICT)

The Government through its Smart Zambia initiatives has identified Information and Communications Technology (ICT) as a major driver for socio-economic growth. Under the Smart Zambia initiatives, the Government through partnerships with the private sector and other stakeholders made progress in the ICT sector in 2017.

Delivery of efficient and affordable service

As part of the Smart Zambia Master Plan and the 7NDP, the Government through the Zambia Information and Communications Technology Authority (ZICTA) has in the prior years’ commissioned Huawei to build 204 towers across 10 provinces in Zambia.

In the second quarter of 2017, the Government through a partnership with EXIM Bank of China, secured a USD 280 million loan to facilitate the construction of additional mobile towers in 2018. This undertaking aims to improve access to ICT services and the Governments’ ability to provide services to the wider Zambian population. It is expected that by the end of 2018, the Government would have funded a total of 1,009 towers.

The adoption of ICT and use of technologies service delivery by the Government has resulted in both savings and increased revenue collection, for example

- In 2017, the Government devised a framework to eliminate challenges over the e-voucher system. The Government undertook a cleanup to remove ghost beneficiaries and duplicates. As a result of this exercise, the Government saved K1 Billion. In the 2017/2018 farming season, the Government plans to fully adopt and migrate to e-voucher system to cover a million beneficiaries/farmers.

- National Tolling Program - ICT continues to play an important role in complementing the Government’s’ efforts in raising revenue.

The Government successfully constructed toll gates and implemented ICT systems to support revenue collection. In first half of 2017, the Government raised K490.5 Million.

Spurring growth of the digital economy

In 2017, the Government developed a new licensing framework for the telecommunication sector. This could potentially pave way for the introduction of a fourth mobile operator.

In addition, the Government opened a National Data Center.

The Government has continued to recognise ICT developments and smart development approach as a global mega trend. Based on this, the Government plans to continue to invest in ICT including telecoms, data centers and up-scaling ICT skills. The Government intends to leverage on Smart Zambia initiatives to promote the use of information and communication technologies to improve the economy, enhance productivity and service delivery in 2018 and beyond.
Sector Analysis

Tourism

Tourism is key to diversification. The Government is still committed, “to be among the top five (5) tourist destinations of choice in Africa by 2030”

The country continues to struggle due to strong competition from well-established countries. Challenges have also arisen such as:

• lack of a comprehensive national tourism plan;
• underdeveloped tourism-related infrastructure;
• limited investment in the tourism sector by both local and foreign investors;
• limited tourism product offering range and scope;
• inadequate tourism promotion and marketing;
• low participation by locals in direct and indirect tourism development; and
• Zambia being perceived as high cost.

There is hope over the horizon as the Government has recognized these challenges faced and has prioritized the tourism sector as one of the key areas to achieve diversification in the economy.

The number of tourists visiting Zambia increased by 23.6% in the first half of 2017 compared to similar period in 2016. The Government anticipates this number to increase further with the completion of the Copperbelt and Lusaka International Airports.

Additionally, the Government through an integrated approach will prioritise the development of major roads, bridges and air strips leading to tourist sites, rehabilitation sites and strengthen wildlife protection.

To fund the development of tourism infrastructure, marketing, product development, training and research, a tourism levy, was introduced in March this year which has generated K3.4 million as at 31 August 2017 through the Tourism Development Fund.

To boost the sector awareness, the Government intends to develop and promote ethno tourism through events such as the Pamodzi Carnival, an annual event aimed at showcasing Zambian art and culture. Further, the Government is embarking on holding carving, craft affairs as centers of cultural tourism, promotion of non-traditional tourism products such as sports events, mine tours, medical tourism, meetings, conferences and events.

In an effort to further reduce unnecessary bureaucracies and cost of doing business, the Government together with the Business Regulatory Review Agency will establish and operationalise a Single Licensing System which will act as a One Stop Shop for obtaining a tourism licence.

Transport

The Zambian Government in the 7th National Development plan for the periods 2017 to 2021 has committed to improve transport systems and infrastructure. This is to be implemented using the following strategies:

• Construction and rehabilitation of railways
• Construction and rehabilitation of road network
• Construction and rehabilitation of maritime and Inland waterways
• Development of aviation infrastructure and operations

In the current year, the Government launched a key road project that is expected to reduce travel time between Lusaka and the Copper-Belt Province. This dual carriageway will be constructed by China Jiangxi. The Government remains committed to road infrastructure projects such as the Link Zambia 8,000, Lusaka 400 and Copperbelt 400. In 2018, the Government will also embark on a USD240 million Lusaka City decongestion project.

In Order to improve the road and railway network, the Government has committed K8,660 million. The Government has restated its commitment to dismantling arrears to contractors in this sector.
Social Protection

The Government of Zambia views social protection with the aim of empowering low capacity households, supporting vulnerable people to live decent lives. The Government has previously implemented a number of interventions aimed at social protection. In 2017, budget these included social cash transfer, keeping girls in school, care for the aged, public welfare assistance scheme, juvenile welfare and community based rehabilitation.

The social protection programs in the past have been funded by donors and through loans from World Bank. Some of the challenges that have been noted include the programs that are fragmented and reached only a small fraction of the poor and vulnerable, benefit levels were not adequate to make a significant impact on the vulnerable as a result they have not escaped the poverty trap as the programs were intended.

The 2018 budget identifies the following programs that are needed for social protection

- Social cash transfer scheme;
- Farmer input support program enhancement;
- Food security pack enhancement;
- Home grown school feeding programme;
- Public welfare assistance scheme enhancement;
- Womens’ development programme;
- Climate change and disaster risk reduction; and
- Pensions reforms.

The Government has allocated K2.3 billion for social protection related expenditures in the 2018 budget.
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