Walking a tightrope

National Budget Bulletin 2020

September 2019

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In this bulletin…

Commentary

Economic slowdown

The 2020 Budget theme ***"Focusing national priorities towards stimulating the domestic economy"*** is clearly aimed at dealing with Zambia's declining economic performance.

In his maiden budget speech, the Minister of Finance, Hon Dr Bwalya N'gandu stated that economic growth is expected to slow down to 2% by the end of 2019. This compares with a target of 4% and growth of 3.7% in 2018. The slowdown in growth is primarily attributed to the impact of climate change and debt servicing. The escalating trade war between the US and China and the global geo-political tensions may also be a factor contributing to the slowdown.

Although revenues and grants exceeded target by 9.1% in the period from January 2019 to August 2019, expenditure exceeded target by 3.4%. This was mainly due to depreciation of the Kwacha and under-subscription of Government securities resulting in increased debt service costs. This left an overall budget deficit of 6.5% of GDP on a cash basis.

The reduction in current account deficit to 1.7% of GDP compared to 2.2% of GDP during the same period in 2018 was primarily attributable to a decline in imports relative to exports. Export earnings in the first half declined by 14.7% compared to the same period in 2018 mainly due to a reduction in price and volumes of copper exported. Non-traditional exports however increased by 17.2% in the first half of the year, compared to the same period in 2018. This was primarily attributable to higher export earnings of gemstones, cement, lime, sulphuric acid and sugar. The decline in imports is primarily attributable to reduction in importation of copper ores, concentrates, motor vehicles and other intermediate goods.

International reserves declined to 1.7 months of import cover compared to 2 months cover in 2018. The reduction in reserves is mainly attributed to external debt service payments and reduction in mineral royalty tax receipts. For 2020, the Government aims to increase reserves to at least 2.5 months of import cover.

On the foreign exchange market, the Kwacha depreciated by 9.4% to an average of K13.03 to 1 USD by August 2019 since December 2018, when the Kwacha stood at K11.91 to the USD. The depreciation was largely due to the increased demand for energy imports, debt servicing, and strengthening of the USD.

Burgeoning debt

External debt increased to USD 10.23 bn by June 2019 from USD 10.05bn at the end of December 2018. The stock of Government guarantees on a net basis is stated at USD 1bn, and domestic arrears, excluding VAT refunds increased from K15.6bn (USD 1.2bn) in December 2018 to K20.2 bn (USD 1.57 bn) at the end of June 2019. This amounts to a considerable total debt position of USD 12.8 bn - excluding VAT refunds.

Zambia's debt woes have been compounded in 2019 by climate-related shocks, with low rainfall across much of the country during the 2018/2019 rainy season leading to poor agricultural production and constrained electricity generation. The ongoing load shedding is constraining crucial business activity at all levels and in all sectors further negatively impacting GDP growth.

Commentary

To tackle the crippling debt burden, the Hon. Minister in his budget speech outlined the following key steps:

a) Slowdown external debt contraction;
b) Postpone or cancel some pipeline loans;
c) Cease issuance of guarantees; and
d) Refinancing existing loans.

There is little information on how the Hon. Minister will implement the above measures. Of particular interest will be the manner in which existing loans will be refinanced.

In essence, the Hon. Minister has the following key options:

a) Mobilise concessional and semi-concessional sources of finance;
b) Postpone and extend debt repayment with current bond managers;
c) Entering into alternative bilateral debt and financing agreements with other sovereign nations to refinance the existing debt obligations; or
d) Refinance existing debt with the issue of new Eurobonds.

The first option will inevitably require stricter austerity measures that meet required conditionalities for concessional borrowing.

Yields or interest on Eurobond debt in the first half of 2019 jumped to 19.8%, 19.2% and 16.5% from 14.1%, 14.3% and 13.3% for the USD 750m, USD 1bn and USD 1.25bn Eurobonds respectively. This suggests that any restructuring under the latter three options will not only be costly and but may be subject to terms which are detrimental to the long term national interest.

The Hon. Minister faces an enormous task of manoeuvring through this minefield.

Monetary and financial performance

Whilst inflation was close to the target of 6% at the end of December 2018, it had jumped to 9.3% by August of 2019. The increase was primarily attributable to higher food prices and depreciation of the Kwacha.

To counteract inflationary pressures, the Policy Rate was adjusted up to 10.25% in May 2019, from 9.75% in December 2018, and the banks average lending rate rose from 23.6% in December 2018 to 26% in August 2019.

Whilst this may have contained inflation, it is likely to have dampened business activity and stifled growth on account of the higher borrowing costs.

Targets for 2020

Government's macroeconomic targets for 2020 are:

- Real GDP growth of at least 3%;
- Maintain inflation within a target range of 6% to 8%;
- Increase international reserves to at least 2.5 months of import cover;
- Reduce the fiscal deficit to 5.5% of GDP; and
- Increase domestic revenue mobilisation to at least 22% of GDP.

The Hon. Minister’s key proposals for stimulating the economy are anchored around economic diversification and the introduction and implementation of policy, regulatory and structural reforms.

Commentary

Economic diversification

The Hon. Minister is confident that economic diversification and job creation can be attained with continued public and private investments in the agriculture, tourism, energy and manufacturing sectors. Key measures include:

- Reduction in dependence on rain fed agriculture, continuation of irrigation development projects, and promotion of aquaculture farming and export oriented industrialisation.
- Focus on promotion of exploration of non-traditional minerals such as gold and manganese through the generation of geological information.
- Focus on development of the Northern Circuit to stimulate growth in the tourism sector.
- Stepping up diversification and rehabilitation of energy sources and dams to build resilience against the negative effects of climate change.

The Minister also expects that the signing of the African Continental Free Trade Agreement will create opportunities for the continued growth of non-traditional exports.

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Structural reforms and expenditure reduction

As part of the measures aimed at reducing the fiscal deficit, the pace of debt accumulation and dismantling of domestic arrears, the Minister proposes amongst other things, the following key measures:

- Modernisation and automation of the revenue collection processes and Government services through electronic platforms and payment gateways;
- Mandatory use of electronic fiscal devices to improve revenue collection;
- Development of a national policy for avoidance of double taxation agreements to protect the revenue base;
- Enhancement of legislation to capture all property developers and traders;
- Accelerating implementation of land titling and revaluation of properties;
- Adjustment of fees and fines to cost reflective levels.

The majority of the above measures have been talked about for sometime now and it is imperative that Government commences implementation. For instance, whilst Government implemented the Public Finance Management Act in 2018, which is designed to strengthen the management of public resources, the accompanying legislation has yet to be enacted.

On the expenditure front there will be measures for:

- Effective management of the public service wage bill and other expenditure areas such as subsidies;
- Minimising cost of running Government;
- Halting accumulation of domestic arrears and prioritising dismantling of current stock;
- Increasing use of Public-Private Partnerships;
- Rescoping road projects; and
- Revising the Public Procurement Act to provide for reference pricing and oversight for high value procurements.

Commentary

The 2019 -2021 Medium Term Expenditure Framework and 2019 Budget states that:

"expenditure on personal emoluments as a share of domestic revenues still remains high at 47.1 per cent in 2018, thereby, constraining other developmental expenditures. Therefore, over the medium-term, the Government will ensure that the public service wage bill, as a share of domestic revenues, is narrowed to not more than 40 per cent by 2021. This will be achieved by restricting recruitment to only front-line personnel and ensuring that annual wage adjustments are made in the context of the resource envelope. In this regard, a provision of K808.7 million has been allocated over the medium-term to cater for the recruitment of approximately 15,500 front-line personnel"

The narrowing of the wage bill as a percentage of domestic revenues, whilst simultaneously increasing recruitment of frontline personnel assumes the rate of increase in domestic revenues will exceed the rate of increase in the public sector wage bill.

The IMF has advised that Government should continue its efforts to identify ghost workers.

The public sector wage bill in Zambia is one of the highest in the world. This, coupled with general low productivity, detracts from optimal use of scarce resources.

Mining and mining taxes

Mining is the largest source of foreign exchange in Zambia, generating almost 70% of total export receipts. It is also an important source of formal employment, accounting for 25% of private sector employment and 10% of total formal sector employment (Source: IMF).

Following unprecedented changes to the mining tax regime in 2019, which included increases in mineral royalty rates and disallowance of the mineral royalty tax for income tax purposes, the Government has again focused the majority of revenue collection measures on the mining sector.

Following the 2019 and 2020 mining tax changes, Zambia will rank as one of the highest mining tax regimes in the world. Rising energy costs from poor rainfall, lower ore grades and fears of nationalisation have contributed to further decline in investment in the mining sector, resulting in reduced mineral production. Copper production in the first and second quarter of 2019 saw a decline of 9% against the last quarter of 2018 and it is expected to further decline by 12.8% by the end of the year according to the Zambia Chamber of Mines.

Bearing in mind that the economy is still heavily reliant on mining, and given the limited exploration activities, and investment in mine development over the recent past, the growth/ development of the Zambian economy may be significantly jeopardised going forward.

Commentary

Sales Tax uncertainty eliminated

The announcement in last year's budget of Government's intention to abolish VAT and introduce Sales Tax gave rise to much uncertainty and fear on account of the manner in which exemptions to inputs would be granted and the potential cascading impact of the tax. Whilst the Hon. Minister's announcement in the current budget to abandon the introduction of Sale Tax can be welcomed with a sigh of relief, a word of caution is necessary. The Hon. Minister also proposed that input VAT on consumables that are not stock in trade will be disallowed. Depending on the definition of consumables and stock in trade adopted by the tax authorities, this amendment could result in a significant increase in operating costs for most sectors of the economy.

Walking the tightrope

With difficult options for successful resolution of the debt crisis, challenges of implementing effective austerity measures in the public sector, the growing impact of climate change, and ongoing trade wars and Eurozone uncertainties over Brexit all contributing to the ongoing challenges of achieving sustainable economic growth, we are walking a tightrope.

The Economy

Global Economy

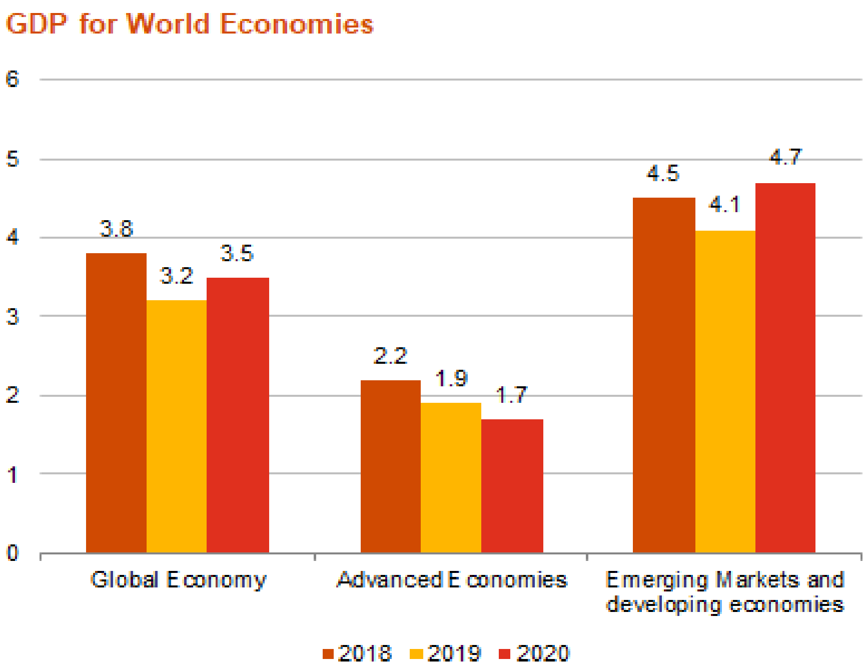
Growth trends

Global growth remains subdued. The trade war between the United States of America and China as well as uncertainty regarding trade agreements post BREXIT contributed to a decline in GDP growth from 3.8% in 2018 to 3.2% in first half of 2019. Europe and Asia experienced the sharpest declines.

It is hoped that growth trends will improve over the second half of 2019. Forecast growth in 2020 is 3.5% based on stabilisation of conditions in the EU area and emerging markets, the ongoing build-up of economic stimulus in China and recent improvements in global financial markets.

The growth across emerging markets and developing economies is projected to be 4.1% in 2019 and 4.7% in 2020.

For other regions, the outlook is mixed. A combination of structural bottlenecks, fiscal constraints, significant debt obligations, stagnant commodity prices, conflict, civil strife and tighter financial conditions mean that growth is expected to slow.



Source: IMF July 2019 World Economic Outlook

The Economy

Sub Saharan Africa

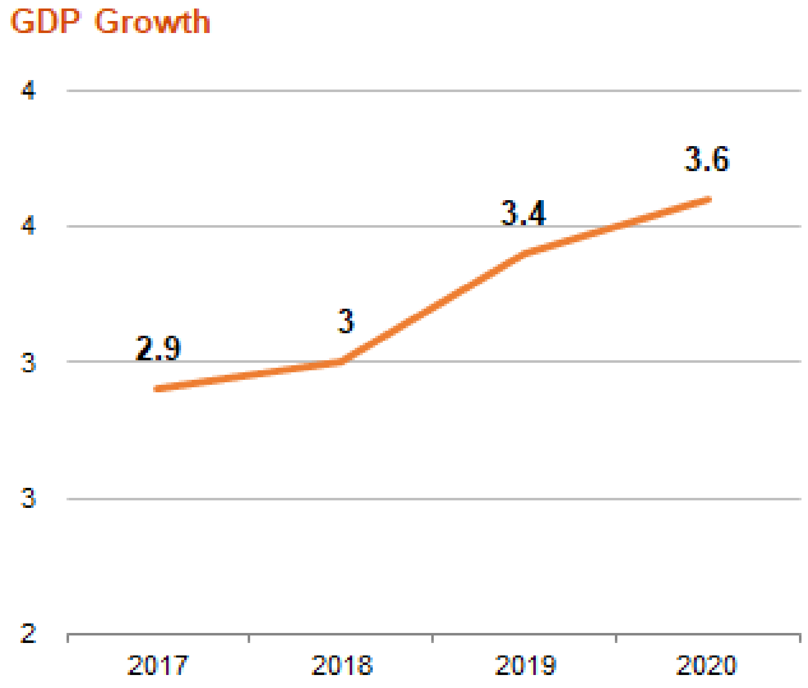
Sub Saharan Africa (SSA)

After being impacted by the decline in global commodities prices between 2015 and 2016 and a bullish US dollar in 2018, most Sub-Saharan African (SSA) countries are on a path to economic recovery.

GDP growth in SSA was 3% in 2018 compared to 2.9% in 2017. It is expected to reach 3.4% in 2019 then 3.6% in 2020. This is on account of increased investment in larger economies in SSA together with growth in non-resource intensive countries.

About 21 countries in the region are expected to grow at 5% or more in 2019. The remaining countries, especially those that are resource-dependent, such as Nigeria and South Africa - are set to face slow growth in the short-term.

According to the IMF, addressing the growth challenges within these countries requires the consolidation of their fiscal positions in order to enhance their resilience to economic shocks whilst stepping up efforts to mobilize revenues and taking action to boost productivity and private investment.



Source: IMF 2019 World Economic Outlook

The Economy

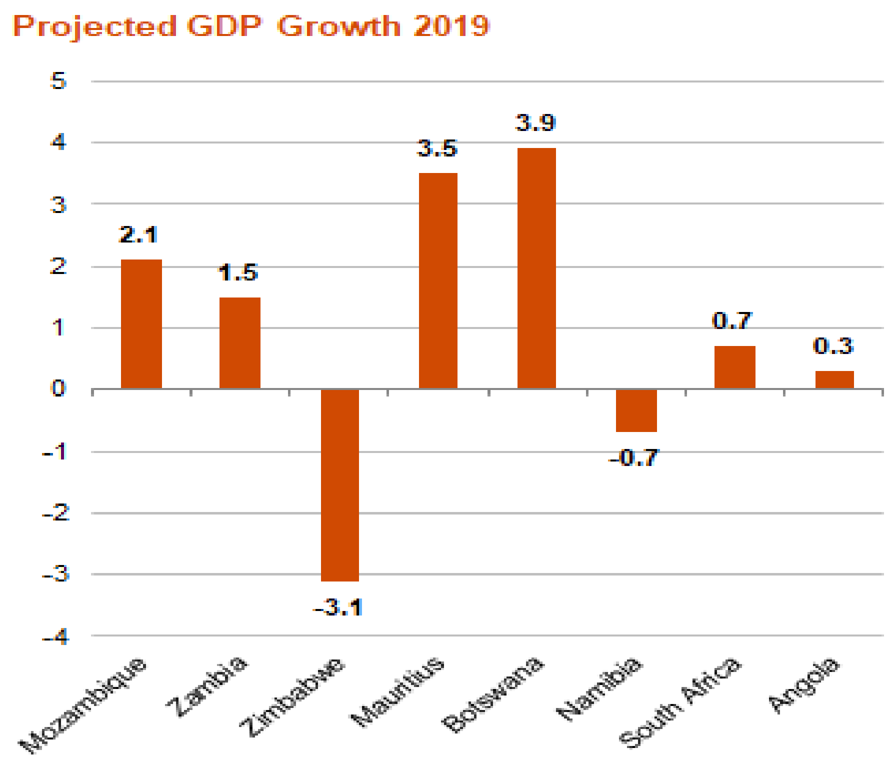
Southern Africa

According to the African Development Bank's 2019 Southern Africa Economic Outlook, Southern Africa is the region with the slowest growth on the continent with GDP growth forecast of 2.8% in 2019 up from 2.2% in 2018.

The major factors impacting growth are the restrictions on governments imposed by elevated government debt and service thereof and the effects of climate change such as drought brought on by the El Nino phenomenon. Drought has and will adversely affect agriculture and the generation of electricity.

According to the 23rd Southern African Regional Climate Outlook Forum, rainfall in Southern Africa is forecast to be normal to above normal from October to December 2019 and normal to below normal from January 2020 to March 2020.

The region also remains susceptible to changes in global commodity prices such as crude oil which cause inflationary pressure if on an upward trajectory.



Source: Fitch Africa Monitor Southern Africa September 2019

The Economy

Zambia

GDP outlook

Inspite of the service sector performing favourably, the annual growth for 2019 is projected to slow down from 3.7% in 2018 to 2.0% from the initial estimate of 4.0% according to the Ministry of Finance. This differs from Fitch Africa's projection of 1.5%. This is as a result of, amongst other things, the effect of adverse weather conditions on sectors such as energy and agriculture.

The mining sector experienced a decline due to low grades of ore at some mines leading to lower production levels, curtailing of activity at certain operations, declining copper prices and a reduction in imports of copper concentrates after the introduction of a 5% import duty.

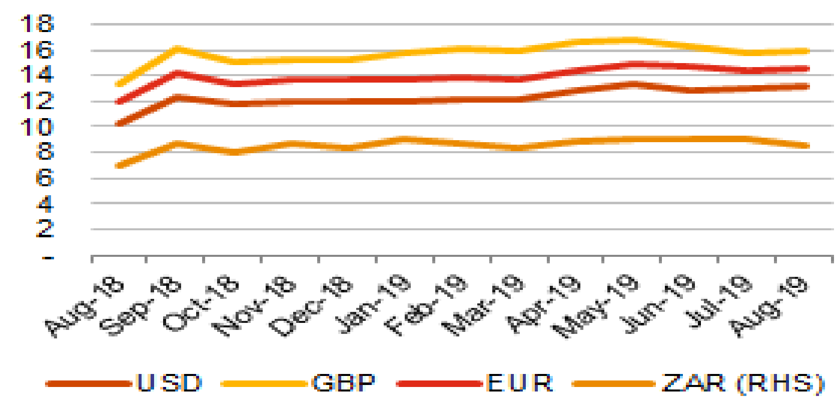
Furthermore, tight liquidity conditions mainly attributed to external debt servicing have contributed to the projected decline.

According to Business Monitor International (BMI) GDP growth is forecast to rebound to 3.1% in 2020, mainly driven by an increase in copper prices.

Exchange rate

The Kwacha depreciated against major trading partner currencies in the first half of 2019 (USD 26.5%, GBP 18.9%, EUR 18.1%, ZAR 9.6%) largely on account of elevated demand for foreign exchange in addition to negative market sentiments following Zambia's sovereign credit rating downgrades, strengthening of the US Dollar and reduced international reserves. Gross international reserves stood at USD 1.4 billion at July 2019 down from US$ 1.6 billion at July 2018.

Exchange Rates



Source: Bank of Zambia

The Economy

Zambia

Inflation

The year on year (annual) inflation rate as measured by the all items Consumer Price Index (CPI) for August 2019 increased to 9.3% in comparison to 8.1% in August 2018.

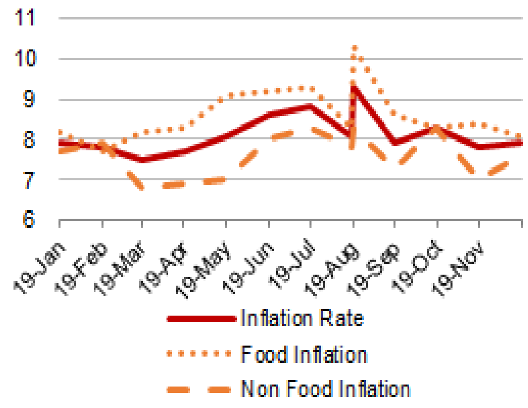
The Bank of Zambia (BOZ) has projected inflation to remain above the upper bound of the 6-8 target range on account of the persistent rise in food prices due to low agricultural food output and is expected to revert to the target range as pressure on food prices dissipates.

Key upside risks identified include drought conditions that are impacting agriculture and energy production, higher than programmed fiscal deficits, elevated external debt service payments and weaker than projected global growth.

Interest rates

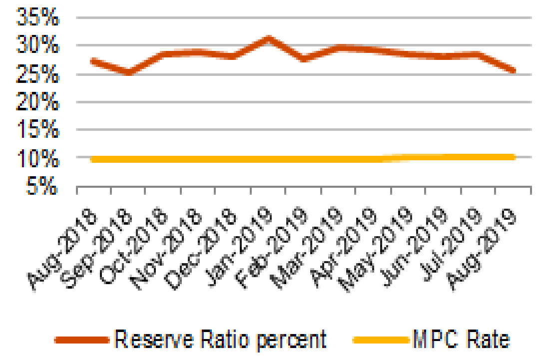
In response to unfavorable macro economic and inflationary pressure, BOZ revised the monetary policy rate from 9.75% which was in effect from February 2018 to 10.25% as at August 2019. The average lending rate rose from 23.93% to 25.82% during the same period.

Inflation Rate



Source: CSO

Monetary Policy Rate and Statutory Reserve



Source: BOZ

The Economy

Zambia

International borrowing

The rate of external debt accumulation in 2019 was 1.9%(2018: 7.6%), however debt service costs increased. This was mainly attributed to principal payments made for loans that matured and depreciation of the kwacha.

According to the 2019 Ministry of Finance's mid-year economic report, Government contracted four (4) new loans amounting to US $433.38 million to finance various development projects as outlined in the Seventh National Development Plan.

Fitch and Moody's downgraded Zambia's credit rating in May 2019 with a negative outlook

Domestic borrowing

The rate of domestic debt accumulation in 2019 was 4.1%(2018: 6.8%).

According the IMF's country report issued in August 2019, treasury securities auctions have been regularly undersubscribed since mid 2018. As a result yields rose sharply reaching around 20 percent on T-bills and government bonds.

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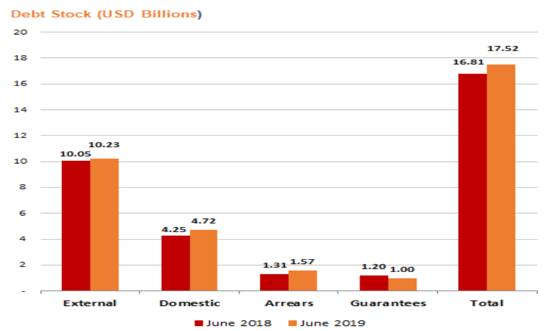

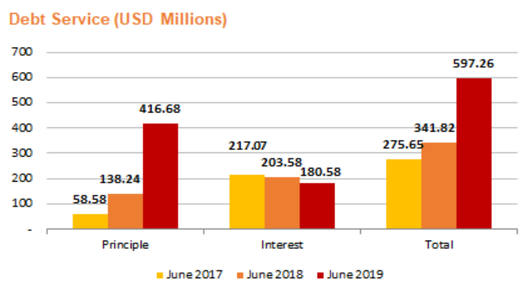

Source: Ministry of Finance Mid year economic report 2019

IMF package

There has been an ongoing debate on whether an IMF bailout is part of the solution to the current fiscal difficulties.

There are examples of nations who have received bailouts in the past who have shown strong economic recovery in the long run whereas the opposite is also true.

Considering the government's quest to achieve debt sustainability and fiscal consolidation whilst providing confidence to various economic stakeholders, we believe that it would be beneficial to revisit conversations with IMF to work out a suitable package.

Weighted Average Discount Rates

Tenure	Aug-19	Dec-18
T Bills	25.87	21.3
Bond	29.58	20.12

Source BOZ

The Economy

Zambia

FY2020 budget projected expenditure

The planned expenditure in FY20 is estimated at K106 billion (2018: K86.8 billion) which is an increase of 22%.

Other General public service and debt service related expenditures are projected to increase by 35% and 43% respectively from the prior year.

Of the total budget of K106 billion, 34% representing K35.8 billion (2018: K23.5 billion) will go towards debt servicing.

Considering that 34% of the 2020 budget has been proposed to be allocated to debt service costs, it would worth noting what proportion of the budget is to be allocated to the wage bill.

One notable increment in allocation is towards road infrastructure with 63% increase to K10.6 billion (2018: K6.5 billion). This contradicts with the message of austerity that the government has been communicating.

The most significant reduction that has been proposed is a 17% reduction (K264 million) in environmental protection expenditure. With recent sentiments about the effects on climate change on the economy, it would be assumed that more resources would be dedicated to environmental protection.

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Function	FY 19	FY 20	Mov't
	K'billion	K'billion	%
Debt service	23.5	36.0	43%
Other General public service	7.8	8.1	35%
Defence	5.1	6.5	27%
Public order and safety	2.9	4.0	38%
Economic affairs	20.7	21.8	5%
Environmental protection and recreation	1.2	1.0	-17%
Housing and community amenities	2.2	3.5	59%
Health	8.1	9.4	16%
Education	13.3	13.1	-2%
Social protection	2.2	2.6	18%
Total	87.0	106.0	19%

The Economy

Zambia

Revenue measures

With a 22% increase in the expenditure budget, The Hon. Minister has a difficult task of putting together a resource envelope that would finance this budget in a manner that ensures that debt is maintained within sustainable levels which he stated was a key priority.

Four key targets of the debt management policy that he stated were to:

•Slowdown external debt contraction;

•Postpone or cancel some pipeline loans;

•Cease the issuance of guarantees; and

•Refinance existing loans.

It is difficult to see how the above policy can be achieved when 29% of the 2020 is targeted to be financed by domestic and external debt.

Tax revenues remain the largest contributor to the resource envelope (51%).

Sales tax will not be implemented. Government has opted to make amendments to Value Added Tax which is projected to increase by K4.1 billion (27%) than 2018 targets.

The Hon. Minister proposed to revise fees and fines upwards to cost reflective levels that is projected increase collections by K1.9 billion.

K6.8 billion has been projected to be collected for exceptional fees. More clarity will be needed to understand the make up of these fees.

Compliance drive

Tax compliance and collection effectiveness remain significant challenges and the Minister has proposed a number of measures which include:

Upgrade of the taxonline system and interface it with the customs system;

Making it mandatory to use Electronic Fiscal Devices;

Enhanced data analytics and matching with third party institutions such as PACRA, NAPSA, ZESCO and ZPPA;

Accelerate implementation of the government service bus and payment gateway;and

Outsourcing forensic audit services whenever necessary to ensure timely audits of VAT claims.

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Sales Tax dropped, VAT retained with some proposed changes

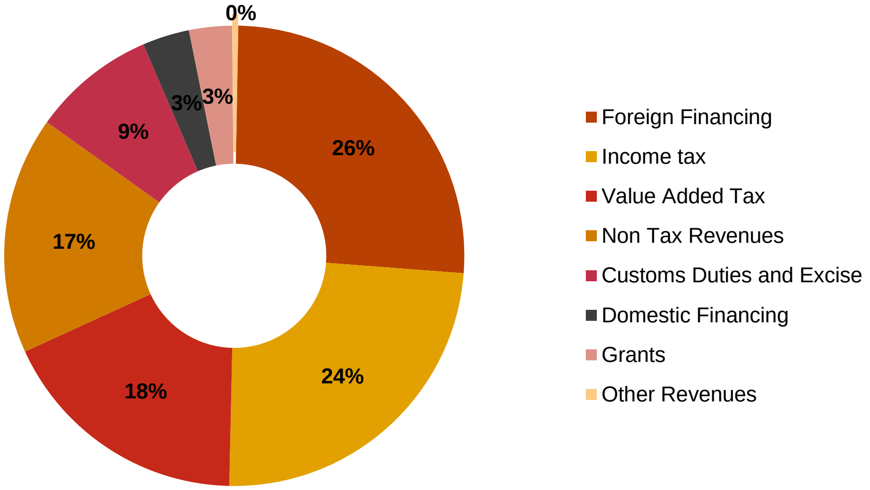
The Economy

Zambia

Revenue Sources

	K Billion	K Billion	Mov't
	2018	2019	%
Foreign Financing	24.6	27.5	12%
Income tax	23.3	25.6	10%
Value Added Tax	14.9	18.9	27%
Non Tax Revenues	9.1	17.7	95%
Customs Duties and Excise	8.4	9.2	10%
Domestic Financing	4.2	3.5	-17%
Grants	1.9	3.2	68%
Other Revenues	0.4	0.45	13%
Total	86.8	106.05	22%

Revenue Sources 2019



Source: 2019/2020 Budget speech

Direct taxes

Withholding Tax

Reduction of the Withholding Tax rate on interest payment on government securities to non-residents

The Hon. Minister proposes to reduce the Withholding Tax ("WHT") rate on interest payments on Government securities to non-residents from 20% to 15%.

In 2019 the ITA was amended to increase WHT on interest payments to non-residents to 20%. However, WHT on Government securities was limited to 15% from 1 January 2019 to 31 December 2019 by way of subsidiary legislation.

This proposed change now aims to formalise the limitation imposed by subsidiary legislation.

Exemption of Withholding Tax on interest payable to banks and financial institutions

The Hon. Minister proposes to exempt from WHT, interest payable to local banks and financial institutions who hold a banking/ financial institution's licence granted under the Banking and Financial Services Act.

The measure aimed at reducing the administrative burden on taxpayers.

Direct taxes

Corporate Income Tax

Revision of the definition of "farming" for Income Tax purposes

The Hon. Minister proposes to revise the definition of farming to exclude activities that are ancillary to agriculture.

This is in order to curb the possibility of businesses involved in ancillary activities such as marketing, technical or management services related to farming/ agricultural business from claiming accelerated allowances on capital expenditure and paying corporate tax at 10%.

Replacement of Lusaka Stock Exchange with Lusaka Securities Exchange

The Hon. Minister proposes to replace the term "Lusaka Stock Exchange" with "Lusaka Securities Exchange" wherever it appears in the ITA in order to align with the change of name in accordance with the Securities and Exchange Act No. 41 of 2016.

Definition of "approved collective investment scheme"

The Hon. Minister proposes for the amendment of the ITA to insert the word "approved" before the words "collective investment scheme". The Hon. Minister also proposes for the introduction of a definition for "approved collective investment scheme". The proposed amendment is expected to bring about a clear distinction between collective investment schemes which qualify for favorable tax treatment under the ITA and those that do not.

Direct taxes

Corporate Income Tax

Procedure for administration, approval and compliance of collective investment schemes

The Hon. Minister proposes to amend the ITA and provide for procedures for the administration, approval and compliance of collective investment schemes. This is in order to ensure that only approved collective investment schemes get access to the favourable tax treatment provided for in the ITA. Currently, the ITA does not provide administration procedures of collective investment schemes.

Imposition of penalties and interest on standard assessments issued in respect of presumptive tax

The Hon. Minister proposes for the amendment of the ITA to introduce penalties and interest on non- payment of presumptive tax.

Introduction of penalties and interest on late payment subject to withholding tax

The Hon. Minister proposes to amend the ITA to introduce the imposition of specific penalties and interest on overdue withholding tax payments on dividends, payments to non-resident contractors, interest, royalties, rent, commissions, management and consultancy fees and public entertainment fees.

Specific penalties on late submission of returns relating to dividends and payments to non-resident contractors

It is proposed that the ITA be amended to introduce specific penalties for the late submission of returns with respect to payments of dividends and payments to non-resident contractors.

Direct taxes

Transfer Pricing

Alignment of definitions to the evolution of international trade

The Hon. Minister proposes to amend the transfer pricing provisions in Section 97A of the ITA by re-defining the terms “Actual conditions”, “Arm's length conditions” and “Related or associated persons”

This measure intends to align these terms to the evolution of international trade in order that transfer pricing rules are appropriately applied to affected related party transactions.

The measure also intends to introduce a definition for “Taxpayer” to achieve the same objective.

Amendment of the transfer pricing provisions

The Hon. Minister proposes to amend the transfer pricing provisions in Section 97A of the ITA by reinstating selected definitions that were in the revoked Section 97AA.

In our view the previously revoked provision contained a number of useful definitions , the deletion of which may have caused avoidable confusion.

Clarification on corresponding adjustments

The Hon. Minister proposes to amend the transfer pricing provisions of the ITA so as to allow a secondary adjustment in cases where a primary adjustment is made by the Zambia Revenue Authority (“ZRA”). To clarify by way of example, in a case where the ZRA determine that management fees paid by a Zambian taxpayer are higher than the arm’s length amount, the ZRA will add back the excess management fees resulting in the Zambia taxpayer paying additional tax on this adjustment. This may result in economic double taxation in relation to the excess management fees as both the Zambian taxpayer and the provider of the service pay tax on the adjustment. Currently, relief from double taxation is only provided in the case where the service provider is a Zambia resident taxpayer.

The Hon. Minister now proposes to extend this relief to non-residents provided the non-resident is a resident of a country that has a Double Taxation Agreement with Zambia.

Direct taxes

Property Transfer Tax

Introduction of anti-avoidance provision on group relief provision

The Hon. Minister proposes to exclude from PTT group relief provisions, transfers between Group Companies that have only been members of a Group for a period of 3 years or less.

Currently there is no restriction on the length of time that a company must be a member of a group prior to the transfer of assets to the said company for the transfer to qualify for group relief.

Definition of “shares” to include equivalent rights

It is proposed that the definition of “shares” for PTT purposes be amended to include “Equivalent Rights”

This broad definition is aimed at expanding the tax by aligning Zambia with other jurisdictions which commonly use the term ‘Equivalent Rights'' in their tax legislation.

In practice, as the use of equivalent rights is not common in Zambia, this provision is likely to apply to indirect transfers.

Removal of referenced income tax sections previously revoked

The Hon. Minister proposes to amend the PTT Act by removing references to provisions in the ITA relating to transfer pricing rules on loans (including thin capitalisation), which have since been repealed.

Exemption from PTT of certain indirect transfers within a group

It is proposed that the PTT Act be amended to allow the Commissioner – General (“CG”) of the ZRA to determine a nil realised value for certain indirect transfers of shares within a group of companies that do not lead to transfer of economic value where the transfer does not result in a change in the effective shareholding.

Determination of the “realisable value” in respect of the indirect transfer of ownership

The Hon. Minister proposes to amend the definition of “realisable value” used in computing the value of shares in an indirect transfer to include:

i. Nominal value of the shares being transferred ; and
ii. The direct consideration of the shares being transferred.

This is in addition to the current computation-based formula.

The realisable value will be the highest value determined based on the three methods.

Indirect taxes

Value Added Tax (VAT)

Sales Tax dropped, focus now on strengthening efficiency and enforcement of VAT

The Hon. Minister advised that Government has decided to maintain VAT and address the compliance and administrative challenges. Some of the proposed administrative measures include:

- Interfacing the Taxonline system for domestic taxes and Customs system for data matching and verification of import VAT claims.
- Mandatory use of Electronic Fiscal Devices ("EFD");
- Facilitate the accreditation of manufacturers of EFDs and developers of virtual EFD software; and
- Make it mandatory to capture TPIN and name of both the buyer and seller of goods in all Business to Business and Business to Government transactions and transmit to ZRA.

The measures will improve efficiency in the administration of the VAT.

Legislative changes

Goods in transit – Ancillary services standard rated

The Hon. Minister proposes to standard rate ancillary services that are directly linked to the transit of goods through Zambia. In our understanding, the basis of this change is that these services are consumed in Zambia.

Ancillary services include handling, administrative services provided to ensure that the necessary procedures and certificates are obtained for the transiting goods.

Sales Tax dropped, VAT retained with some proposed changes

Zero rate alternative energy source

The Hon. Minister proposes to zero rate:

- Gas stoves and other gas cookers;
- Gas boilers;
- Other appliances that use gas; and
- Liquefied Petroleum Gas.

This measure will encourage the use of gas appliances and is intended to mitigate the effects of climate change by reducing reliance on electricity and charcoal for energy.

Disallow VAT claims on consumables

The Hon. Minister proposes to disallow input VAT on consumables except where such consumables are stock in trade. The Hon. Minister provides examples of consumables that are likely to be affected by this measure to include stationery, lubricants and spare parts.

Indirect taxes

Value Added Tax (VAT)

Disallow VAT claims on consumables

We should highlight that the budget so far does not provide much guidance on what would constitute a consumable or stock in trade. We look forward to clarifications in the amendment Act or subsidiary legislation.

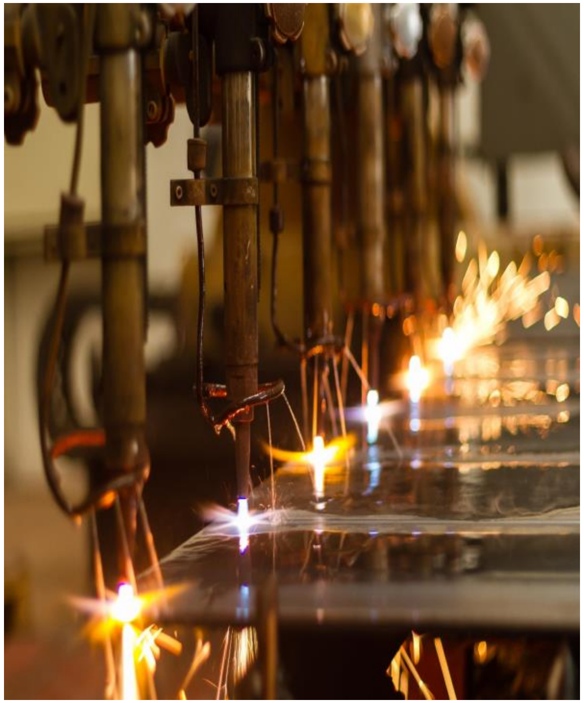
As a result we can only speculate as to the definitions of these terms at this stage. In view of this our subsequent comments are based on general definitions of consumables.

As a starting point, the VAT Act does not define consumables and stock in trade.

Definition of consumables

However the Customs and Excise (General) Regulations 2000 defines consumables as:

"consumables" means items that are utilized by an organization and are depleted on a regular basis, and includes fuel, lubricants, spare parts and tyres.



The effect may be similar to that of Sales Tax

Further, the Oxford Dictionary defines consumables as:

A commodity that is intended to be used up relatively quickly.

Based on the general definitions, where a business uses goods in its production process and these goods do not form part of the finished products, then the goods may be considered to be consumables.

Taking the above into account, the measure may result in significant cost escalation businesses.

For example, manufacturers of cement, detergent paste and lime use coal in processing their raw materials. As the coal does not form part of the final product, does it mean that it will be treated as a consumable?

If the coal will be treated as a consumable, the effect may be similar to that of Sales Tax.

Indirect taxes

Customs and Excise

Introduction of surtax on Flexible Intermediate Bulk Containers

The Hon. Minister proposes to introduce a surtax at the rate of 5% on importation of flexible intermediate bulk containers.

This measure is aimed at promoting local production of the containers (jumbo bags). The purpose of introducing the surtax may be achieved if there is local capacity to produce the containers. To achieve this objective, Government should assist local producers to scale up their capacity in the production of the containers.

Increase in the excise duty rate on cigarettes

The Hon. Minister proposes to increase the specific excise duty rate on the importation of cigarettes from K240 per mille to K265 per mille.

The objective of this measure is to maintain the competitiveness of domestic producers of cigarettes and to increase revenue collection.

Streamlining Duty Drawback Scheme

The Hon. Minister proposes to limit refunds under the duty draw back scheme to only import duty paid on inputs and remove the refund of implied duties on locally sourced inputs.

This measure is intended to streamline refunds by restricting duty drawback to only duty paid on imported inputs used in the manufacture of goods for export. Although this measure may achieve the intended purpose, it may discourage the use of local inputs in the manufacture of goods for export.

Suspension of duty on selected aqua culture equipment

The Hon. Minister proposes to suspend import duty for three years on selected aqua culture equipment. The objective is to promote the aquaculture sub sector and make community fish farming attractive. This measure is likely to increase investment in fish farming to increase fishery yield, reduce importation of fish and also reduce unemployment in the country
.

Suspension of import duty on the importation of machinery for processing of solid waste

The Hon. Minister proposes to suspend import duty, for three years, on machinery used for processing of solid waste to generate electricity and for the production of organic fertilisers. Although this measure may lead to revenue loss in the short term, the future gains from this measure through increased electricity generation should reduce over dependence on hydropower and also compensate for the revenue loss.

Further, this measure should boost the local production of organic fertilisers to improve farming activities in Zambia.

Mining tax regime

Direct tax and Transfer pricing rules for quoted commodities (the Sixth method)

Reduction of capital allowances

The Hon. Minister proposes to reduce rate of capital allowances for mining companies from 25% to 20%.

This measure is expected to reduce the amount of capital allowances claimable annually and extend the duration for claiming capital expenditure from 4 years to 5 years.

Pricing of base and precious metals between related parties

The Hon. Minister proposes to amend the transfer pricing provisions in the ITA to provide specific guidance on the reference price for the purchase and sale of base and precious metals between related parties.

The proposed amendments include:

- provide for price premium adjustments to be made to the reference price. In our understanding these premiums may be attributable to certain economically relevant characteristics;
- Empower the Commissioner-General to issue specific guidelines on pricing of minerals.
- Use a price that is higher than the reference price in cases where a Zambia resident person or non-resident person has entered into a transaction with a third party in which the agreed price is higher than the reference price and the sale does not involve further milling, blending, treatment, refinement or transformation.
- extend the use of the reference pricing to adjust the pricing of purchases between related parties; and
- empower the Commissioner-General to request a resident or non-resident person to provide, upon request third party Sales Agreements and third party invoices relating to the sale of the base or precious metals.

The objective of this measure is to ensure that premium adjustments are captured and that the Commissioner-General can also issue specific guidance on pricing of base metals and precious metals where appropriate and provide guidelines on determining discounts.

Under current provisions the pricing of the sale of base or precious metals between related parties is the “reference price”. The reference price is defined to include quoted prices for the minerals (e.g. quoted price on the London Metal Exchange, in the London Metal Bulletin, etc.). This is known as the Sixth Transfer Pricing Method or simply the Sixth Method.

Mining tax regime

Indirect taxes

10% Import duty on importation of specified capital equipment

The Hon. Minister proposes the introduction of a 10% import duty on importation of specified capital equipment by mining companies.

This measure is intended to raise revenue for Government and discourage transfer (mis-) pricing.

Assuming the introduction of the import duty does not affect the appetite to import machinery and equipment (especially that Zambia does not manufacture such equipment) ,the measure should result in an increase in tax revenues.

This is unlikely to discourage transfer mispricing as the measure applies to both related party and third party transactions. In addition, transfer mispricing is best managed through enforcement of transfer pricing legislation which is already in existence.

Zero rating of capital equipment and machinery for the mining sector

The Hon. Minister proposes to zero rate capital equipment and machinery for the mining sector for VAT purposes.

The objective of the proposed measure is to improve cash flow for the mining sector and reduce VAT refund claims.

Currently, mining capital equipment and machinery are generally standard rated. However, VAT on certain qualifying mining equipment is deferred under the VAT deferment scheme.

From the National Budget pronouncements, it is not clear whether this measure will compliment the VAT deferment scheme or the deferment scheme will be abolished and all mining equipment (including equipment currently on the deferment scheme) will then become zero rated.

We therefore look forward to clarifications in the amendment Act or subsidiary legislation.

Mining tax regime

Indirect taxes

Zero rate copper cathodes for VAT purposes

The Hon. Minister proposes to zero rate the local supply of copper cathodes for VAT purposes.

This will encourage local value addition, ease cashflow challenges by manufacturers and reduce input VAT claims due to exporters of products manufactured from copper cathodes.

Limiting input VAT claims on diesel from 90% to 70%

The Hon. Minister proposes to limit input VAT claims on diesel by mining and mineral processing companies from 90% to 70%.

The measure is intended to generate more revenue for Government. This measure is likely to increase the cost of doing business for the Mines.

Limiting input VAT claims on electricity from 100% to 80%

The Hon. Minister proposes to limit input VAT claims on electricity by mining and mineral processing companies from 100% to 80%.

The measure is intended to generate more revenue for Government. This measure is also likely to increase the cost of doing business for the Mines.

Sector analysis

Financial services

The Government's overall rating of the banking and non-banking sectors was satisfactory and fair respectively as stated in the 2020 budget address. For the banking industry in particular, this was in largely due to strong aggregate capital adequacy. However, the wider financial services sector faces challenges brought about by changes in the macro-economic environment. Further, financial institutions find themselves increasingly challenged by non-traditional players utilising innovative technology. Some of the most pressing matters affecting the financial services sector include:

Growth in local economy

Preliminary data shows that annual growth of real GDP is expected to reduce to 2% in 2019 compared to 3.7% in 2018. This is mainly due to reduced agricultural output and electricity production attributed to adverse climatic conditions. Economic growth has also been adversely affected by a decline in copper output and low copper prices arising from reduced global demand.

There is a causal link between the soundness and performance of all participants of the financial services sector and the rate of economic growth. Ultimately, the economic conditions dictate whether businesses are successful and consequently, whether they can service their obligations to financial institutions.

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Credit risk

For lending institutions, credit risk is one of the main concerns facing the financial services sector. For banks, the non performing loans to total loans ratio (NPL ratio) was 9.4% as at August 2019 compared to 11% in December 2018. This is largely driven by the writing off of bad debts and the general increase in loans and advances disbursed in 2019. The non-bank financial institutions NPL ratio was 24.8% as August 2019 compared to 13.2% as at December 2018. This considerably higher level of NPLs is attributed to challenges in collection of repayments on salary-backed loans.

The economic slowdown is considered one of the most significant factors contributing to credit deterioration. Other top contributors to the rate of non-performing loans include poor credit underwriting, and over exposure to underperforming sectors of the economy.

Further, the accumulated domestic arrears, particularly to government projects and suppliers, remains a concern. These domestic arrears also affect institutional lenders investing in the securities market as the underlying performance of a number of securities is linked to government projects.

Financial services

Improving revenue growth

Revenue growth remains a significant issue for entities in the financial services sector. Banks in particular have been increasingly focused on growing non-funded income in order to mitigate the impact of higher funding costs, slow credit growth and the abolishment of unwarranted fees and charges in September 2018. That being said, the average lending rates on commercial loans have increased to 25.82% as at August 2019 compared to 23.6% in December 2018. However, sustainability of interest income is are largely dependant on the credit quality of borrowers and the performance of the economy as a whole.

Further, most lending institutions, which includes banks, non-banks, and institutional investors have taken advantage of the high interest rates on government securities by investing heavily in these securities. Based on the Bank of Zambia fortnightly statistics, the average yields on treasury bills and government bonds increased from 21.3% and 20.12% respectively as at December 2018 to 25.87% and 29.58% respectively as at the end of August 2019. The total combined outstanding stock on government securities increased from K56.2 billion as at the end of December 2018 to K60.3 billion as at the end of August 2019.

Financial inclusion

Financial inclusion in Zambia is expanding primarily through digital channels (mobile money, mobile wallets, etc) and the growth of savings groups which are sometimes referred to as “Village Banking”. The achievement of financial inclusion targets has however been hampered by the high set-up costs of technology and infrastructure required to provide access to these services.

The Government's efforts to increase the access of technology to people in unserved areas will be key to achieving financial inclusion targets.

Financial services

Technology

The world continues to gravitate towards technology based products and services. In the banking sector, banks are increasingly adopting more digital delivery channels. As a result, the industry has experienced a significant growth in the use of digital banking channels as evidenced by the increase in the value and volume of payments as reported by Bank of Zambia in 2018.

Specifically, the value of transactions recorded on mobile money platforms was K22 billion for the whole of 2018 based on Bank of Zambia payment statistics. The value of transactions for the half year to June 2019, which is the most recent information available, was K18 billion. Assuming this trend continues to the end of the year, it is likely to surpass the value of transactions recorded throughout 2018.

Further, the Government intends to introduce an electronic trading platform to increase the effectiveness of the capital markets. As the use of technology continues to grow, so does the risk of cyber crime. Most financial institutions have invested significant time, money and efforts on technological investments to combat this threat as well campaigns aimed at sensitising customers about the risks.

Financial services - Insurance

Insurance companies play a significant role in the effective functioning of other financial institutions and the economy as a whole. While they face similar challenges to commercial banks and non banking financial institutions, they face other problems that are specific to sector as a whole. Below are the most pertinent issues faced by insurance companies.

Growth of the local economy

Similar to other financial institutions, the slow down in the performance of the economy has adversely affected the growth of the insurance sector. Despite the sluggish economy, total gross premiums written grew by 15% to K3.2 billion for the year ended 31 December 2018 (2017: 2.8 billion). While this growth is impressive, this reflects a low penetration rate of about 1%. However, this at the same time demonstrates the immense growth potential of the industry.

Awareness

The growth prospects of the insurance sector has also been negatively affected by a lack of awareness by a significant portion of the population as regards the role of insurance in economy and the benefits it offers.

Credit risk

For most insurance companies, the collectability of premium debtors particularly from brokers continues to remain a significant challenge. The ability of brokers and other debtors to make timely payments has been adversely affected by the general performance of the economy with a knock-on effect on insurance companies in general.

Skilled resources

The insurance sector requires individuals of a specialist nature that is not readily available in the Zambian labour market. This is further complicated by the complex accounting requirements for insurance contracts.

Regulatory environment

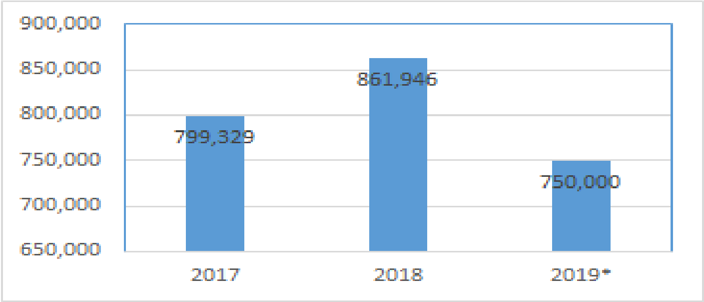
The issue of whether the prevailing legislation provides a conducive environment that allows the industry to thrive is an area of much debate. In addition, the quality of the interaction between insurance companies and the regulator is an area of concern.

Mining sector

The mining sector in Zambia continues to be fundamental to the Zambian economy and is a significant source of revenue for the government. The sector also employs a large labour force both directly and indirectly. In addition to being the second largest producer of copper in Africa, Zambia also produces approximately 20% of the world's emeralds.

The average copper prices for the 8 months to August 2019 and 2018 were USD 6,091 and USD 6,723 per tonne respectively. According to the 'The Wall Street Journal' publication on 2 August 2019, the copper price sank to a two-year low as renewed trade hostilities between the U.S. and China reinforced fears about the world economy. The decline dragged the three-month futures prices down to USD5,730/tonne, its lowest since January 2017.

Zambia Annual Copper Production



*projected 2019 production based on Zambia Chamber of Mines estimates

According to the Zambia Chamber of Mines, the Country's annual copper production is expected to decline by approximately 12% to 750,000 tonnes in 2019. The mining sector has been beset by a number of challenges which have resulted in reduced production. These challenges include; uncertainty in the mining tax regime and sales tax implementation and low copper grade.

Mining sector

By nature, mining is a capital intensive operation which requires long term planning. Investors in this industry continue to look at, among other things, the stability of policies in a given target market prior to making their investment. Instability in policy changes leads to a loss of investor confidence.

In a statement issued by the President, His Excellency, Edgar Lungu in June 2019, he communicated that the Government is committed to ensuring all companies in Zambia pay the right taxes.

Following countrywide consultations, the Government decided to maintain the Value Added Tax (VAT) system as opposed to implementing Sales Tax. The proposed new VAT measures seek to strengthen enforcement and efficiency.

The new measures will increase the contribution mining companies make to the Government treasury.

Mining sector

Mining opportunity

Various geological surveys conducted have widely reported that Zambia has a vast potential for mineral resources. The Zambia Development Agency published a subsector profile report on mineral beneficiation. In this report, it highlighted the Country's mineral occurrences and exploration potential for both copper and other precious metals.

The Zambia Chamber of Mines estimates that there has been a reduction of approximately 80% in exploration activities over the past ten years. Mining companies and investors in Zambia need to be encouraged to return to exploration activities to realise the benefits that can be obtained from their investment in this sector.

The Honorable Minister has allocated additional resources in the 2020 budget to the completion of the geological mapping of the country's mineral resources. This will allow the Government better understand its mineral deposits and hopefully attract increased exploration activity and investment in to the sector..

> "The mining industry has potential to grow

Our view

In spite of the challenges faced in the current year, Zambia is a Country whose mining industry has the potential to grow. The decision to maintain the VAT system in the proposed 2020 budget is commendable as it takes into account the varying concerns expressed by stakeholders. We encourage the government to continue to dialogue with the sector to foster increased investment and grow the impact that mining can have on the Zambian economy.

Energy sector

Petroleum sub-sector

Status of 2019 outlook and Budget commitment:

Accordingly to the ERB 2018 Sector report, 2019's Petroleum Sector has experienced its first full year of the fuel marking project, aimed at eradicating fuel dumping by transit fuel transportation vessels, thus expected to improve Government revenue collection.

However, according to the ERB 2018 Sector analysis, Zambians continued to pay the 2nd highest fuel pump price in the region. In 2018 the government intended to address this through the disengagement of the Government from the procurement of crude oil.

In the 2019 budget address, the Minister committed to take to parliament the Petroleum Management Bill in an effort to enhance the regulatory framework within the subsector. This was aimed at facilitating the enhanced participation of the private sector in petroleum management. The progress on this bill as at September 2019 remains unclear.

Petroleum prices are expected to increase to the end of 2019 on account of exchange rate deterioration as well as the cascading effect from increases in global oil prices, should the geo - political tensions in the Middle - East worsen.

Medium term outlook

In the medium term, the Government has plans to attract investment in the extraction of crude oil through the granting of more exploration licenses and hastening the review of the Petroleum (exploration and production) Act Cap 440 of the Laws of Zambia.

Energy sector

Electricity sub-sector

Status of 2019 outlook and Budget commitment:

2019 electricity generation, which is 82% hydro based (source: ERB 2018 Sector Report), contracted compared to 2018 by over 50% due to lower water levels in most hydro power generation dams/reservoirs caused by El-nino-driven low rainfall in the 2018/2019 rain season. This has resulted in increased load shedding for all economic sectors (excluding mining) and households in Zambia, ranging from 4 to 8 hours of electricity power rationing.

However, in August 2019 the Government announced to have secured a 300 MW electricity importation agreement with South Africa's Eskom.

Major investments responding to both local and regional demand is increasing, yet it still remains mainly Hydro based and thus prone to climate changes

In the 2019 budget address, the Government made the following key commitments for the energy sector:

Cost-of-service study - This is the baseline review for effecting cost reflective tariffs to attract investments in the sector. Initially planned for completion in 2019, the Minister of Energy has since indicated that completion of the study is scheduled for 2020 Q1.

The Government allocated K415.8 million to various power infrastructure projects and a further K182.5 million to rural electrification. The President in his September 2019 State of the Nation address, stated that a cumulative 26,764 rural households were connected to the national grid since the electrification program started a few years ago.

To move towards making Zambia a net exporter of electricity, Government planned that in 2019, two solar projects with combined total of 90 megawatts (Bangweulu and Ngonye Solar plants) would be completed in the first half of 2019. Government has achieved this and added the 90MW to the national grid.

An additional 1,050 megawatts (750 megawatts from Kafue Gorge Lower and also 300 megawatts from second phase of Maamba coal-fired thermal plant) was expected towards end of 2019. According to the President's State of Nation Address, these projects completion timeline is now expected only in 2020 (Kafue Gorge Lower – 2020 Q1).

Energy sector

2020 Budget pronouncements and outlook

In order to diversity and boost the electricity power generation capacity, Government has allocated a total of K1.1 billion (2019: K415 million) for investments in Energy Sector, representing more than 50% increase to the Sub Sector.

A further K166.3 million (2019:K182 million) was allocated towards the Rural Electrification Fund.

To promote the use of alternative energy sources, the Government has proposed the following:

- Zero rate the supply of gas stoves and other gas cookers and gas boilers; and
- Suspend import duty, for 3 years, on the importation of machinery for processing waste to generate electricity.

Medium to long term outlook

For the medium term, major energy projects continue to remain Hydro Power focused with Batoka's Hydro Power Investment of over US$4 billion - 2.4 GW capacity and Kafue Lower Gorge Hydro with 750MW generation capacity.

In the long term, there are moves towards improving the energy mix towards Nuclear and Solar (Government has established Nuclear Energy Program and GETFit Projects).

Further, the Government has developed the national renewable energy resource Atlas focusing on solar and wind. The Atlas is an invaluable source of information on solar and wind availability for power generation.

Our view

In as much as the 23rd Southern African Regional Climate Outlook Forum (SARCOF-23) forecasted "normal to above normal" rainfall in the 2019/2020 rainy season, it is unlikely to immediately impact electricity generation as Kariba Dam and other water reservoirs require at least 3 normal rainy seasons to return to normal generation water levels. The reduced electricity generation is therefore expected to continue into 2020.

Further, ZESCO's high debt stock reported at US$900 million in May 2019 and more than one third of it been to Independent Power Producers (IPP), need to be dismantled, as it continues to constrict the growth of the IPP sector (both for existing IPP and attracting new investments).

Agriculture sector

"The diversification of our economy and job creation is premised on value addition to our abundant natural resources and integration of climate smart solutions. Over 80% of Zambians are directly dependent on climate sensitive natural resources which support activities in agriculture, livestock and fisheries" (President's speech, 13 September 2019)

Government's efforts to diversify the economy has been evidenced by various projects:

Tractor assembly plant: To enhance mechanisation in the agriculture sector, the Industrial development Corporation (IDC) engaged an international development bank to finance the establishment of a $100 million tractor assembly plant in the Lusaka South Multi-Facility Economic Zone. The works are still in progress by the contractor,Ursus SA, a polish firm. Once completed, it is hoped that farmers will access cheaper equipment.

Livestock service centres: As of end of August 2019, the government had built 87 of the 140 planned Livestock centres. These centres are providing various services such as vaccination, dipping and branding to the farmers.

Irrigation development projects: Works at Lusitu and Musakashi schemes have reached 85% and 50% completion respectively. These are intended to reduce the dependence on rain-fed agriculture.

Agriculture sector

Recently completed projects

Chiansi Irrigation scheme: The government launched the Chiansi Irrigation scheme in August 2019 at the Zambia National Service Farm in Kafue. It is estimated that the project will create at least 400 jobs as well as reduce the vulnerability of small-scale farmers to the effects of climate change.

Milk processing plants: To strengthen the value chain, Government has constructed three milk processing plants located in Mpika, Mbala and Kasama.

Suspension of duty on aquaculture equipment:
In a bid to promote aquaculture, the government has suspended duty on selected equipment for this sector for three years.

Challenges in the sector

Effectiveness of FISP: The Farmer Input Support Programme (FISP) is a significant commitment from the government in support of small scale farmers. The programme has faced significant challenges including the delay or non-delivery of cards, delays in balance loading, ICT challenges and late payment of agro dealers.

Low grain floor prices; The Government, through the Food Reserve Agency (FRA) set the maize floor price at K110 per 50Kg bag for the 2018/2019 marketing season. While this was an improvement from last year's price of K75, the cost of production is still high which makes sustainability of the sector a challenge. Additionally the floor prices are announced at harvest time, which makes it difficult for farmers to plan effectively

Lack of financial support: The agricultural sector is currently perceived as high risk on account of the high incidence of non-performing loans in the recent past. As such, cheap, long-term funding is scarce.

Climate change and Livestock diseases: Zambia experienced a severe drought which has resulted in low productivity and low water levels for hydro-electricity generation. Further, livestock is susceptible to animal diseases.

Agriculture sector

Our view

Increased government support is required with regards the marketing of farmer outputs. The floor prices need to reflect the cost of production so that farming can be more self sustaining.

We also note that budget allocation to the sector has declining for the past 3 years. In the 2020 budget, the allocation has reduced by 15% from K2 billion to K1.7 billion. This appears at odds with the objective of growing the sector. Given the fiscal constraints, funding will remain a challenge in the short to medium term.

Continued investment in irrigation infrastructure in all provinces coupled with sufficient power generation projects should remain priorities to improve the resilience of the sector in the face of climate change.

Manufacturing sector

The manufacturing sector continues to be one of the government's strategic sectors for the creation of employment. Manufacturing contributed 8.1% to the national GDP in the first quarter of 2019 as compared to 8.5% in the same period in 2018 which is a reduction of 0.4%. The reduction in the sector's contribution to the national GDP was occasioned by the contraction of the various sub-sectors which included the food, beverages, tobacco, paper and paper products and fabricated metal products which contracted by between 0.3% and 7.1%.

Government remains committed to programmes in the manufacturing sector that result in the promotion of domestic and Foreign Direct Investment (FDI) into the existing Multi-Facility Economic Zones (MFEZ) and industrial parks. In his September 2019 speech to parliament, the president disclosed that, the Lusaka and the Copperbelt Multi-Facility Economic Zones have attracted investments in excess of USD 2.5 billion and created more than 9,000 jobs.

The Zambia Development Agency (ZDA) continues to offer incentives for investing in the Multi-Facility Economic Zones (MFEZ). Additionally, the government through the Minister of Finance in his presentation of the 2020 budget, announced that it is establishing industrial yards in selected towns across the Country to support small enterprises involved in manufacturing and this is expected to create 4,000 jobs.

Our view

The manufacturing sector is highly dependent on energy like many other sectors of the economy with any interruption in its supply having significant negative consequences on operations. The government should therefore ensure that the energy deficit currently experienced is resolved both in the short and long term thereby ensuring a steady supply of power which in turn will result in increased activity and, ultimately, sustained contribution to the national GDP.

Further, the government should on a periodic basis consider revising incentives currently in place in instances where they are identified not to produce planned results and these should cover both fiscal and non fiscal incentives.

Water and sanitation sector

The government has made investments in various projects over the years in the sector. The Ministry of Water Development, Sanitation and Environmental Protection is making strides towards achieving the universal coverage for water and sanitation by 2030. In the current year, government undertook rehabilitation of dams across the country to ensure availability of water. National Urban Water and Sanitation programme was carried out in various parts of the country by setting up piped water schemes as well as drilling and rehabilitating boreholes.

In his budget speech, the minister stated that a total of 225 boreholes have so far been drilled and equipped with hand pumps. Other projects include piped water schemes where 15,000 people are being reached in Luapula Province. Further, 863 boreholes have been drilled under the Transforming Rural Livelihood Project in Western Province and 10 piped water schemes are at various stages of construction.

Government has further stated in the Green book (2019 to 2021) that it will continue with the rehabilitation and construction of small and large dams for various water needs particularly for domestic and agricultural use, and for power generation. This will be done to enhance rain water harvesting and catchment protection. Further, to promote local and transboundary aquifer water management, government will promote partnerships with neighboring countries through ratification of protocols on information sharing. To this effect, government will put in place a water resource mobilization strategy.

The budget allocation to the water and sanitation sector has increased from K1.99 billion in the 2019 budget to K 2.62 billion in the 2020 budget. This is in line with the climate change challenges that have been experienced in the country which has necessitated increase in allocation to this sector.

Our view

Access to clean and safe drinking water, in addition to adequate sanitation services, is critical to mitigating the risk of contraction and spread of preventable water borne diseases such as cholera. Aside from the obvious negative outcomes including loss of life and increased strain on health services, an outbreak has effect of constraining economic activity in affected areas.

Since access to water and sanitation is a human right, the Government should ensure that it delivers on its promises of universal access to water and sanitation. Therefore, the 32% increase in budget allocation from the 2019 allocation, if appropriated managed, should go a long way in ensuring that access to water and sanitation is improved and hence preventing highlighted challenges.

Health sector

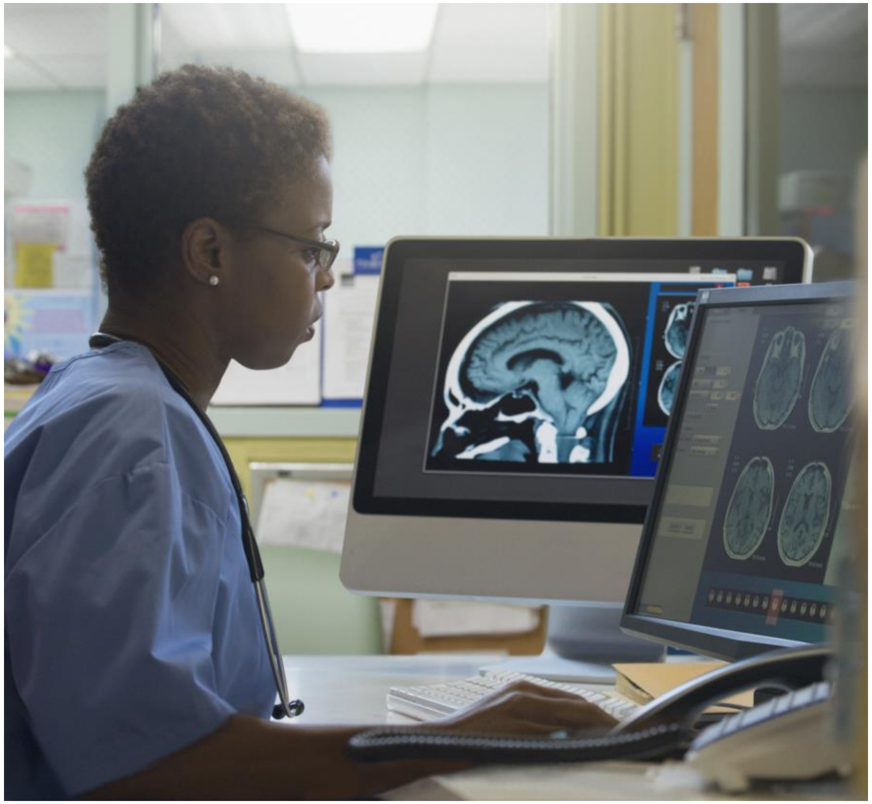
The National Health Strategic Plan (NHSP) (2017 – 2021) set out 7 key priorities for the health sector to which the health budget will fund. The key priorities include reducing maternal mortality ratio, eliminating malaria, recruitment of health care workers, implementation of the Health Insurance Scheme, achievement of the HIV epidemic control, construction of specialised hospitals and health facilities and addressing alcohol and substance abuse.

The Zambia Demographic Health Survey launched in April 2019 shows significant strides in the sector. Maternal Mortality Ratio (MMR) reduced from 368/100,000 in 2014 to 278/100,000 in 2018 and infant mortality rate from 45/100,000 in 2014 to 42/100,000 in 2018. Malaria incidence has slightly dropped 374/1000 in 2017 to 312/1000 in 2018 and inpatient malaria deaths has reduced from 8.4/100,000 in 2017 to 7/100,000 in 2018.

A total of 20,647 health workers have been recruited to date. The approved required staff for the Ministry is 126,389. As of end of June 2019 there were 60,332 staff representing 48% of the required number. Further, the government is in the process of implementing the National Health Insurance (NHI) Act of 2018 and the NHI regulations were released on 20 September 2019. It also defines the benefit package. Further NHI board members are in the process of being engaged including a third party administrator. Currently the NHI bill is targeting the formal sector group that is already over taxed with PAYE and in most cases are covered by private medical insurance providers. If correctly implemented it has the potential to cushion the health sector from the constrained fiscal space.

Regarding HIV epidemic control, against the target of 90:90:90 (90% of people tested, 90% of that tested positive put on ART and 90% of those on ART are virally suppressed),as of July 2019, the government had achieved 90% of people living with HIV know their status, 92% of the people who are HIV positive currently receiving ART and 86.5% being virally suppressed

Health sector



Health infrastructure development continues to be a key focus area for the Government. Currently, 342 out of 650 health posts have been completed. Several key facilities including 2 general hospitals (Chinsali and Petauke), specialised hospital along Airport road, UTH modernization and Levy Mwanawansa hospitals are at an advanced completion stage. The Government has completed regional hubs for the storage and distribution of drugs and supplies in Chipata, Choma, Mansa, Mpika and Luanshya. In addition, the Medical Stores Limited main warehouse in Lusaka has been upgraded and expanded. It is expected that these infrastructural interventions will enhance delivery to the outlying health facilities.

It is therefore encouraging to note the continued investment in the health sector from K8 billion in 2019 to K9 billion in 2020 representing a 1.6% increase in allocation towards the health sector. The main areas of allocation for the K9 billion is health infrastructure with K1 billion (2019:K620 million), drugs and medical supplies at K900 million (2019: K900 million) and hospital operations K686 million (2019: K725 million). However, we foresee a challenge, in that, as much as more health facilities have been commissioned in the year, the allocation towards drugs and medical supplies has been maintained as per previous budget. This means the new facilities may not be well stocked with much needed drugs and medical supplies.

Education sector

Zambia's Vision 2030 highlights participation rates across education levels (including gender disparities in participation rates) and progression rates to higher education levels as the main metrics to equitable and inclusive education. The government strategised to employ among other strategies: infrastructure development, teacher training, recruitment and deployment improvement, operationalising the Loan Scheme (and strengthening the loan recovery system for student loans in order to make student financing self-sustaining) as well as enhancing private sector participation through mainly PPPs, in order to achieve the Vision 2030 goals.

In this regard, the position of the Ministry of General Education (MoGE) is that every pupil enrolled into elementary school should be seen through to University. This implies that educational infrastructure, materials and teachers/ lecturers must be available all the way through to University. On the other hand, the Ministry of Higher Education (MoHE) mandate is poised to ensure that they accommodate the entire population graduating from secondary schools including ensuring that student loans are available to deserving candidates and recovery rate enhanced.

In 2019, a number of strides have been made towards the achievement of the set targets in the 2019 budget. The government newly constructed a total of 68 schools with more currently at an advanced stage of completion, recruited 2,009 more teachers, covered 39 schools under the School Health and Nutrition programme in conjunction with World Food Programme (WFP), supported 15,000 girls in school and kickstarted the development of localised learning materials.

The biggest bottleneck continues to be putting up sufficient education infrastructure to cater for the growing population of the country. Further, there is still a long way to reach the desired pupil/ student teacher ratio.

It is a considered view that equitably distributed school infrastructure is the backbone of the sector as the government subsequently allocates resources training and deployment of teachers/ lecturers, development of teaching materials and spearheading research, among other infrastructure dependent activities.

K13.1 billion (K13.3 billion: 2019) has been allocated to the sector in the 2020 budget against the Mid Term Expenditure Framework (MTEF) projection of K14.6 billion (K13.9 billion: 2019) i.e. 10% short of the projection.

Our view

While the government from year to year strives to fight the challenges in the sector, it is imperative to keep track of the priorities of the sector. The funding to the sector over the last three years has taken a downward trend at the expense of the growing challenges in the sector, mainly exacerbated by global trends in education delivery methods and the growing population of the country. The sustained impediment in the sector has been the pace at which infrastructure has been developed.

Looking forward to the year 2030, the government will need to bring on board key stakeholders through such initiatives as PPPs in order to address the long underlying problem of lack of infrastructure whilst maintaining steady allocation of resources towards peripheral activities (e.g. teacher training and learning materials development) in the sector. In that fashion, the short term goals in the sector including equal access to education facilities, training and development of staff as well as development of contemporary educational materials will be stimulated.

Information and Communication Technology (ICT)

The "Smart Zambia Project" is the core of the Government's drive and progress into the digital age. The "Smart Zambia" project is intended to assist the Government build efficient and inter-operable systems between government ministries and institutions, including revenue collecting institutions.

Progress in the Smart Zambia Project

Telecommunications

The Government through a partnership with EXIM Bank of China, secured a USD 280 million loan to construct 1,009 telecommunication towers.

In 2018, 318 out of 1,009 towers were rolled out. This year and as part of the Telecommunication Towers Project Phase II; the Government has delivered 667 new towers, out of which 500 are operational and a further 300 planned for completion by close of 2019.

At completion, the "Communication Tower Project" is expected to improve coverage from the current 84% to 95%.

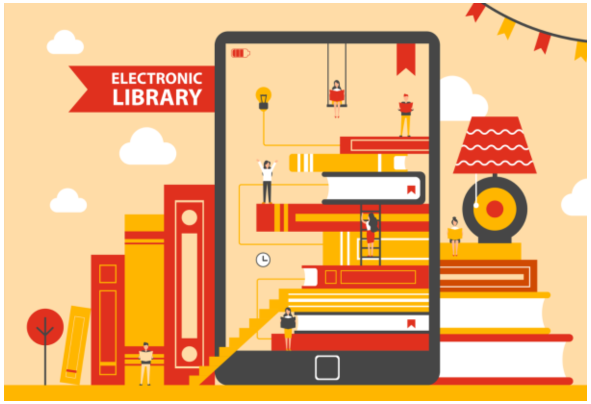
Smart Zambia Phase I completed

Phase 1 of a joint framework and financing agreement for the Smart Zambia project was signed between Zambia and China in 2015. This phase included building of a national Data Center which was officially handed over to the Government on 28 February 2017 and now officially operational.

Huawei, the primary supplier, has provided the Zambian National Data Center with a reliable solution which includes: A Three-Data-Centers-in-Two-Cities (3DC) solution that ensures the security and continuity of government services and data.

The main National Data Center is located in Lusaka; with two back up Data Centres located at different sites.

The National Data Center was handed over to the government on 28 February 2017 and is now officially in operation.



Information and Communication Technology (ICT)

Smart Zambia: Next steps

Phase II of the Smart Zambia project being coordinated by the Smart Zambia Institute (SZI), a division under the Office of the President, was launched on 4 August 2017. In 2019, the Government has continued to make positive strides in this regard.

1. Under this phase, a national broadband network and eGovernment platform to benefit 17 sites across the country will be built. Core aspects of this project will include:

    - Deployment of 9,050 kilometers of fiber optic cable across the country to connect businesses, public-sector institutions and urban households to the National Data Center. To date, 122 Government institutions have been connected to the Government Wide Area Network (WAN) and an additional 50 has been planned to be connected in 2020

    .

2. eCustoms system for twelve Zambian shipping ports that are connected to the existing Zambia Revenue Authority Asycuda system.The eCustoms system is supported by the Huawei-supplied eGovernment platform.

Leveraging ICTs - Other key areas to be addressed by government include:

Revenue collections

- Implementation of the Telecommunication Transaction Monitoring System for mobile service providers to enhance compliance levels for excise duty.

- Automating and digitising government processes to enhance revenue collection, operational efficiencies and reduce leakages

Social Protection Programmes

The Zambia Integrated Social Protection Information System, a biometric based system, has been developed. The system will supplement government's efforts to improve the coordination, efficiency and transparency in the management and disbursement of social protection programmes.

Information and Communication Technology (ICT)

Our view - Cyber security considerations

It is clear that cyber security is no longer an issue to be dealt with in isolation by staff working in IT departments of either government ministries/institutions or the private sector. It requires a proportionate, pragmatic and structured response built into the very fabric of any institution.

Why? Because the government has invested heavily in digitising it's operations and connecting the wider citizenry to eGovernment platforms; we have now become more connected and the government, including its institutions need to defend their frontier into cyberspace. Doing this right requires new thinking.

Traditional information security approaches tend to focus on dealing with preventative controls with a concentration on protecting the confidentiality of information. This is good, but it only paints half the picture.

Why?

Never before has the need to focus on the availability and integrity of information been so great; disruptive cyber-attacks are commonplace and organisations must embrace the unfortunate point that they are now a fact of business life. Attacks will happen, and they will happen to all of us. Assume compromise, and act accordingly. Incident response is as essential as protective security.

Sources:

1. *Update on Economic Developments in the second quarter of 2019 by Honourable Dr. Bwalya K. Ng'andu, MP Minister of Finance*
2. *Speech for the official opening of the fourth session of the twelfth National Assembly by His Excellency, Mr. Edgar Chagwa Lungu, President of the Republic of Zambia on Friday,13 September 2019*
3. *New ICT Helps Build Smart Zambia. Retrieved from https://e.huawei.com/topic/leading-new-ict-es/smart-zambia-case.html*

Tourism sector

The Government outlined its focus on the tourism industry in its Seventh National Development Plan, with the main aim being diversification of the tourism sector.

As stated in the 2020 National Budget, projected expenditure anticipated to boost growth in the tourism sector relates mainly towards road infrastructure, amounting to K10.6 billion (2019: K6.5 billion) and international airports is projected to be K1.8 billion (2019: K1.6 billion).

In the 2020 National budget, the Government intends to focus on the development of the Northern Circuit through the rehabilitation of roads to and within the tourist sites. The priority will include enhanced promotion of the Lumangwe, Kalombo and Kabwelume water falls as well as revamping tourism activities around Samfya Beach.

Investment expositions have been held around the region which resulted in pledges made towards tourism and other economic sectors, with the Southern Province Investment and Tourism Expo ending in September 2019. Government intends to facilitate the actualisation of these pledges.

Our View

Zambia has a large potential for growth in the tourism industry, with its peaceful nature, vast array of wildlife and rich natural resources spreading across the country. However, Zambia's tourism industry is underdeveloped when compared to competing countries in SADC as well as other African countries.

The Tourism sector has seen limited growth with respect to increases in international arrivals with a slight increase in tourist arrivals, which is forecast to close at 1.1 million arrivals at the end of 2019 compared to 1 million arrivals being recorded in 2018.

The Government should consider investing in extensive international marketing as well as investing in hotel infrastructure outside of the main tourist destinations, Lusaka and Livingstone, in order to boost international receipts.

Transportation sector

The 7th National Development Plan (2017-2021) is currently in its third year of implementation. According to the IMF, Zambia's development strategy has focused on rapidly scaling up public investment in infrastructure in order to address the country's apparent deficit. Investments have included upgrades to the road network as well as development of new aviation facilities.

Civil Aviation and Airways Policy & Regulations

Provincial and strategic Airport upgrading is ongoing for the Kenneth Kaunda International Airport which is at 85% completion and the Copperbelt International Airport is at 50%. The Kenneth Kaunda International airport is scheduled for completion in 2020.

Roads and Road Traffic Policy & Regulations

The construction and rehabilitation of the road network in the country continues to progress. The Lusaka decongestion project is currently being implemented to reduce traffic congestion as well as travel times and distance. Ultimately road users should benefit through savings arising from lower fuel usage.

Rail rehabilitation and modernisation projects are in the pipeline but yet to commence. Further to this, the government has come up with the 2019 National Transport Policy, which provides for Intermodal Transport systems comprising rail, water and pipeline.

In line with the policy and the 7th NDP, the 2020 budget has K12.375 billion allocated for roads infrastructure and International airports.

Transportation sector

Our View

The continued infrastructure and policy reforms will result in improved road networks and transport infrastructure in general. Whether or not all of this will yield the anticipated economic benefits is yet to be seen.

In his budget speech, the minister stated that the National Road tolling Programme has raised K765 million compared to K549 million over the same period in 2018. These funds should be used to fund road maintenance programs in order to ensure the longevity of the investments being made. .
The source of funding for ongoing projects is however unclear. Continued accumulation of debt will only result in tighter fiscal conditions. The pronouncement by the Honorable minister indicating that the nature of some projects will be revised, e.g downgrade from bituminous standard to gravel is a step in the right direction especially if roads are not economically significant.

Overall, continued cost-benefit analysis is required. This will inform the government on the sustainability of planned projects.

Social protection sector in Zambia

The Zambian government has shown commitment in maintaining expenditure on social protection of the vulnerable population. In this regard, K2.6 billion (2019: K 2.2 billion) has been allocated to the social protection sector in the 2020 budget.

This allocation is significantly higher than the K1.1 billion annual average expenditure on social protection sector envisioned in the Medium Term Expenditure Framework (MTEF). The over expenditure on the prior year budget was attributed to increased spending on food pack programmes and other social protection related programmes due to heightened hunger situation following the low rainfall received in most parts of the country.

The social protection and empowering programs are designed to help households afford more than one meal a day, more diet diversity, afford more shoes and clothes for their children, to attain some level of education and empower the small-scale farmers.

The Ministry of Community Development and Social Services launched the National Social Protection Policy, Monitoring and Evaluation Framework in May 2019 as a reflection of the Government's commitment to the expansion of the Social Protection sector. The framework has embedded in it the electronic based system which will promote efficient and effective delivery to beneficiaries. The system will further enhance coordination and transparency in the management and disbursement of social protection programmes.

This biometric based system will further minimize human interface, which has in the past caused challenges around transparency and accountability and the recipients receiving the social protection way after it was due.

Our view

In light of the erratic rainy seasons experienced over the last few years, which have in the most recent past resulted in hunger in some parts of the country, the social protection programs being implemented by the Government continue to play a key role in improving lives of the most vulnerable.

However, the success of these programmes is not only dependent on the amount of resources allocated to the sector, but also their effective and efficient management. Specifically, concerns over the management of programmes, such as the Social Cash Transfer Programme, have in the past had a significant negative impact on the wider economy. We hope that interventions, such as the implementation of the biometric based system, will go a long way in restoring sustained stakeholder confidence.

Tax data card 2019/2020

Tax data card 2019/2020

Corporate tax rates	2020	2019
Standard rate	35%	35%
Banks	35%	35%
Telecommunication companies		
Income not exceeding K250,000	35%	35%
Income exceeding K250,000	40%	40%
Farming/agro-processing or export of non-traditional products from farming or agro-procession	10%	10%
Income earned by producers of organic and chemical fertilizers	15%	15%
Export of other non-traditional products*	15%	15%
All other companies except mining companies	35%	35%
Companies add value to copper cathode	15%	15%
New listings on LuSE**	2% discount	2% discount
New listings on LuSE> 33% shares taken up by Zambians**	5% discount	5% discount
Listings on LuSE>33% shares taken up by Zambians	5% discount	5% discount
Advanced Income Tax (on importation of goods in the absence of a valid tax clearance certificate)	15%	15%
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)	4%	4%

Levies on casino, lottery, betting and gaming

	2020	2019
Casino live games	20% of gross takings	20% of gross takings
Casino machine games	20% of gross takings	20% of gross takings
Lottery winnings	35% of net proceeds	35% of net proceeds
Betting	10% of gross stakes	10% of gross stakes
Gamming	K250 to K500 per machine/month	K250 to K500 per machine/month

Capital deductions***	2020	2019
Investment allowance on industrial buildings**** (one off)	10%	10%
Initial allowance on industrial buildings**** (one off)	10%	10%
Industrial buildings wear and tear allowance	5%	5%
Commercial buildings wear and tear allowance	2%	2%
Implements, machinery and plant		
Used for farming and agro-processing	100%	100%
Used for manufacturing, tourism, leasing	50%	50%
Used for electricity power generation	50%	50%
Used in mining companies	20%	25%
Implements, machinery and plant- Other uses	25%	25%
Motor vehicles		
Commercial	25%	25%
Non-commercial	20%	20%
Farming		
Farm improvement/ Farm works allowance	100%	100%

Carry forward of trading losses	No. of years	No. of years
Non - mining companies	5	5
Hydro and thermo power generation companies	10	10
Other power generation companies (wind and solar) excluding wood	10	10

* 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 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. Total allowances claimed should not exceed the cost of the asset.

Tax data card 2019/2020

Corporate Income Tax rate	2020	2019
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 and cobalt	5%	5%
Cobalt	8%	8%
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	5.5%	5.5%
Norm Price of copper=>USD4,500/tonne<USD6,000/tonne	6.5%	6.5%
Norm price of copper=>USD6,000/tonne<USD7,500/tonne	7.5%	7.5%
Norm price of copper=>USD7,500/tonne<USD9,000	8.5%	8.5%
Norm price of copper USD9,000/tonne and above	10%	10%

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

	Resident	Non-resident
Dividend*	0%	0%

* The above rates are unchanged from 2019.

Income Tax Individuals

2020 Monthly income bands

	Income from K	Income to K	Tax rate %	Tax on band (maximum) K	Cumulative tax on income (maximum) K
First	0	3,300.00	0	0	
Next	3,300.01	4,100.00	25	200	200
Next	4,100.01	6,200.00	30	630	830
Over	6,200.00		37.5		

2019 Monthly income bands

	Income from K	Income to K	Tax rate %	Tax on band (maximum) K	Cumulative tax on income (maximum) K
First	0	3,300.00	0	0	
Next	3,300.01	4,100.00	25	200	200
Next	4,100.01	6,200.00	30	630	830
Over	6,200.00		37.5		

Non-cash benefits

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:

	2020	2019
Engine size < 1,800 cc:	K18,000 p.a.	K18,000 p.a.
Engine size > 1,800 cc, < 2,800 cc:	K30,000 p.a.	K30,000 p.a.
Engine size > 2,800 cc:	K40,000 p.a.	K40,000 p.a.

Tax data card 2019/2020

Withholding Tax (WHT)	Resident	Non Resident
Dividend	15%*	20%*
Branch profits	n/a	20%
Interest	15%**	20%
Coupon Income (Interest) on Government Bonds	15%	15%
Management or consultancy fee	15%	20%
Royalties	15%	20%
Rent from a source within the Republic	10%***	10%
Commissions	15%	20%
Non-resident construction and haulage contractor	n/a	20%
Non-resident entertainers/sports persons fees	n/a	20%

Note: The above rates remain unchanged from 2019 with the exception of the rate on interest payable to local banks and financial institutions.

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

**interest payable to local banks and financial institutions are exempt.

***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 infective currently.

**Status of tax treaty currently uncertain.

Insurance Levy	2020	2019
Charged on Insurance Premiums*	3%	3%

* The 3% levy is not applicable on reinsurance services.

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*

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

Note: The above rates, threshold and deadlines remain unchanged from 2019.

Property Transfer Tax (PTT)*	2020	2019
Land (including buildings)	5%	5%
Shares**	5%	5%
Transfer or sale of mining right	10%	10%
Intellectual property	5%	5%
Shares listed on the LuSE	0%	0%

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

**The PTT at 5% applies on indirect change in ownership or control of a Zambian entity.

Tax data card 2019/2020

Carbon Tax

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

	2020	2019
Motor cycles	K60 p.a.	K50 p.a.
Engine size < 1,500 cc	K60 p.a.	K50 p.a.
Engine size > 1,500 cc, < 2,000 cc	K120 p.a.	K100 p.a.
Engine size > 2,000 cc, <3,000 cc	K180 p.a.	K150 p.a.
Over 3,000cc	K240 p.a.	K200 p.a.
Vehicles propelled by non-pollutant energy sources	nil	nil

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:

Type of Vehicle	Tax per Vehicle per annum (2020)	Tax Per Vehicle per annum (2019)
64 Seater and above	K10,800	K10,800
50-63 Seater	K9,000	K9,000
36-49 Seater	K7,200	K7,200
22-35 Seater	K5,400	K5,400
18-21 Seater	K3,600	K3,600
12-17 Seater	K1,800	K1,800
Below 12 Seater	K900	K900

Deadlines and Penalties

2020 Deadlines	Penalty	Interest
Income Tax - Companies		
Provisional tax Return deadlines: First Provisional Tax Return: 5 March 2020 (manual submission) 31 March 2020* (electronic submissions) * Returns for companies registered for income tax after 31 March are due 90 days from the date of registration	Provisional tax: Late filing of return: K600 per month or part month	N/A
Revision of Provisional Tax Return 30 June 2020, 30 September 2020 & 31 December 2020 (where applicable)		
Payment deadlines: Within 10 days following the end of the quarter	Late payment of tax: 5% per month or part month	Late payment: 2% + DR*
	**Underestimation of tax: 25%	N/A
**Note: 2/3 of the total tax liability must be paid by the final quarter or else the 25% penalty applies.		
Final tax return & payment		
Deadline: 5 June 2020 (manual submissions) 21 June 2020 (electronic submissions)	Late filing of return: K600 per month or part month	N/A
	Late payment of tax: 5% per month or part month	Late payment: 2% + DR*
Income Tax - Individuals	Late payment of tax: 5% per month or part month	Late payment: 2% + DR*
Final tax return & payment		
Deadline: 5 June 2020 (manual submissions 21 June 2020 (electronic submissions)	Late filing of return: 5% per month or part month K300 per month or part month	N/A

Deadlines and Penalties

2020 Deadlines	Penalty	Interest
Withholding Tax (WHT)		
Filing & payment deadlines: Within 14 days after the end of the month of accrual/payment	Late payment of WHT: 5% per month or part month	Late payment: 2% + DR*
	WHT late filing of return: K102 per month or part month (for companies) K51 per month or part month (for individuals)	N/A
Payroll (PAYE)		
Filing & payment deadlines: Electronic returns to be filed within 10 days after the end of the month of accrual/payment	Late payment of PAYE: 5% per month or part month	Late payment: 2% + DR
Manual returns to be filed within 5 days of after the end of the month	Late filing of PAYE return: K600 per month or part month	N/A
VAT		
Filing & payment deadlines: 18 days** after the end of the accounting period***	VAT late filing of return: Daily penalty – higher of K300 and 0.5% x tax payable	Late payment: 2% + DR
All annual Income Tax, PAYE and VAT returns should be submitted electronically to the ZRA except for certain small businesses with minimal transactions	VAT late payment of tax: Daily penalty – 0,5% x tax payable	

Key

*DR = Bank of Zambia discount rate

**Withholding VAT agents will be required to submit returns within 16 days after the accounting period.

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

Tax data card 2019/2020

Deadlines and Penalties

2020 Deadlines	Penalty	Interest
Turnover Tax		
Filing & payment deadlines: Within 14 days after the end of the month of accrual/payment	Late payment of tax: 5% per month or part month	Late payment: 2% + DR
	late filing of return: K75 per month or part month	N/A

Transfer pricing

The penalties for non-compliance with transfer pricing regulation is 80 million penalty units (K 24,000,000) .

Contacts

Nasir Ali
Partner - Assurance
Mobile: +260 974 770886
nasir.y.x.ali@pwc.com

Jyoti Mistry
Partner - Tax
Mobile: +260 977 740641
jyoti.mistry@pwc.com

Charity Mulenga
Partner - Assurance
Mobile: +260 977 740834
charity.mulenga@pwc.com

Lydia Pwadura
Partner - Tax
Mobile: +260 971 027663
lydia.g.pwadura@pwc.com

Andrew Chibuye
Partner - Assurance
Mobile +260 (761) 835 505
andrew.chibuye@pwc.com

www.pwc.com/zm

The information on tax data card is based on the budget pronouncements of 27 September 2019. The specific legislative provisions to effect the budget pronouncements are subject to enactment by Parliament. We therefore caution that the information highlighted in this data card may be subject to change. Accordingly, you should confirm the current tax position as necessary.

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