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Navigating The New Normal

2021 National Budget Bulletin

September 2020

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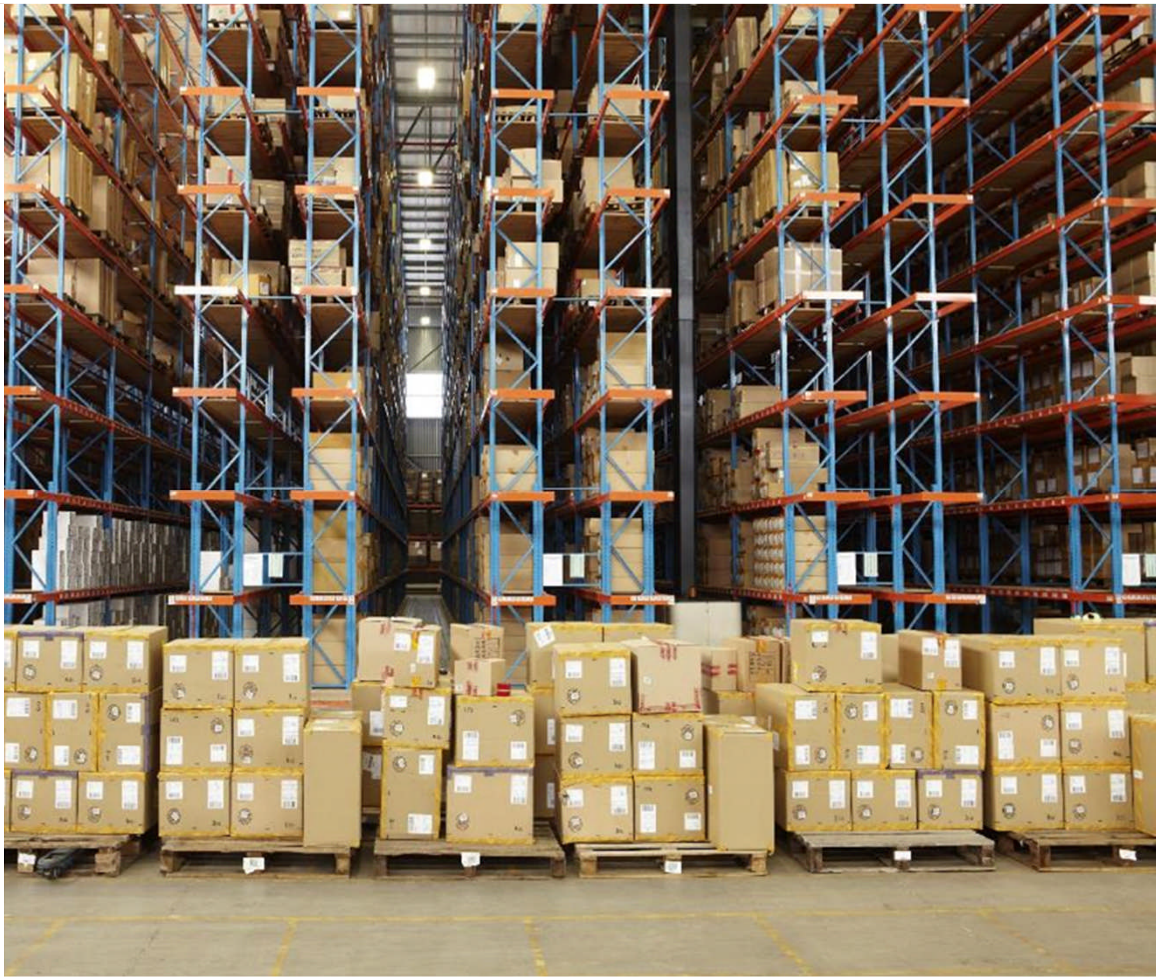
Commentary



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Economy slow down

The Minister of Finance, Hon. Dr Bwalya Ng'andu ("The Hon. Minister") will have his work cut out next year if he is to steer Zambia's economy to firm ground ahead of the 2021 general election in August.

Economic growth is projected to contract 4.2% this year owing to the Covid-19 pandemic and ongoing electricity shortages, putting the economy into recession for the first time in 22 years and raising questions about how Zambia will manage its large debt burden. Copper price volatility plus a sharply weakened kwacha are adding to Zambia's economic woes.

With all sectors of the economy except agriculture and Information and Communication Technologies ("ICT") expected to register negative growth in 2020, Zambia Government ("Government") revenue will fall 12% this year, pushing the fiscal deficit to 11.7% of GDP against a target of 5.5%.

All this makes tackling Zambia's debt situation even more pressing. At the end of June, Zambia's external debt stood at just under US$12 billion, while domestic debt was US$7.3 billion (Government securities rose 42.5% to K114 billion at the end of August 2020 compared to K80 billion at the end of 2019, due in part to the issuance of a Covid-19 Bond, while Government guarantees currently stand at US$1.58 billion). This brings Zambia's total declared debt, excluding arrears, to US$19.3 billion.

Debt dilemma….

How Zambia will repay its debt has been a topic of international interest following Government's announcement shortly before this year's budget that it is seeking a six-month suspension of interest payments from October on its US$3 billion of Eurobonds.

Government said a decline in revenues plus an increase in unbudgeted costs brought about by Covid-19 was affecting its ability to meet international debt obligations. Sizeable allocations to the Fertiliser Input Subsidy Programme ("FISP") and strategic food reserves also continue to constrain Government's ability to repay debt. Allocation to FISP will increase fourfold from K1.4 billion in 2020 to K5.7 billion in 2021, while the Food Reserve Agency ("FRA") plans to buy one million tonnes of maize this year, more than triple last year's target of 300,000 metric tonnes.

The request for a repayment holiday has been interpreted by markets as tantamount to default, with Fitch ratings agency subsequently dropping Zambia's credit rating from CC to C – close to junk status. Furthermore, sharp declines in the kwacha have increased the cost of Zambia's external debt. The currency has fallen 42% since the start of 2020.

Commentary

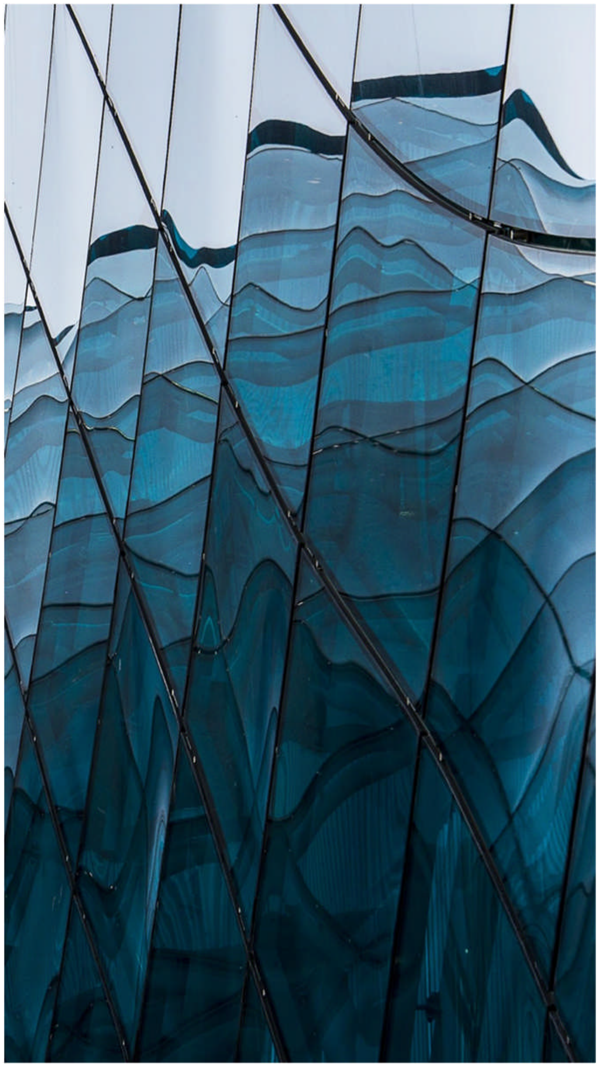
A new debt management plan

In this year's budget, titled "Stimulate Economic Recovery and Build Resilience to Safeguard Livelihoods and Protect the Vulnerable", The Hon. Minister announced an Economic Recovery Programme designed to make Zambia's debt sustainable and reinvigorate growth.

Government's new debt management policy includes cancelling US$1.1 billion of pipeline loans and saving US$280 million by rescoping existing projects. Zambia has also sought participation in the G20's Debt Service Suspension Initiative, which provides debt service relief until the end of the year.

On the domestic front, Government plans to reduce domestic arrears, broaden participation in the Government securities market and alter its domestic debt portfolio from shorter to long-term instruments.

Debt servicing is Zambia's biggest budget expenditure, accounting for almost 39.0% of the 2021 budget. Reorganising national debt therefore is necessary if Government is to free up funds to reduce poverty and improve livelihoods, and have an opportunity to seek a funding package from the International Monetary Fund ("IMF").



IMF discussions ongoing

Government appointed French investment banking firm Lazard Freres earlier this year to devise a liability management strategy for its US dollar-denominated debt.

This was a positive step for those hopeful that Zambia will negotiate a financial programme with the IMF; restructuring the country's debt is essential if Zambia is to be successful in its loan application. In the short term, Zambia is looking to secure funds from the IMF's rapid credit facility to cushion the impact of the pandemic, with discussions ongoing for a more comprehensive financial support programme. It is unclear at this stage what impact Government's recent request to defer its Eurobond interest repayments will have on IMF negotiations.

It is also unclear whether Government's decision in August to replace current Bank of Zambia governor Denny Kalyalya with Christopher Mvunga will affect any potential IMF deal. In a press release issued in response to the news that Dr Kalyalya was being replaced, the IMF said recent macroeconomic stability in developing countries had been largely due to the increased independence of central banks. "It is imperative that central banks' operational independence and credibility is maintained, particularly at this critical time when economic stability is threatened by the Covid-19 pandemic," the IMF said.

Energy shortages = rising business costs

Load shedding has continued to be a huge impediment to economic growth in 2020, with all sectors facing rising production costs as companies try to mitigate the impact of power outages on business. Electricity generation has been constrained in recent years by low rainfall due to changing weather patterns across the country as well as insufficient generation capacity.

It is hoped that load shedding will reduce significantly when the Kafue Gorge Lower Power Station comes partly online at the end of this year. Government said in the budget that the power station is expected to be producing 300 megawatts of its 750-megawatt-capacity by December, which will go some way to reducing Zambia's 810MW electricity deficit, although this new generation capacity is already late coming online.

Government has committed to completing the much-awaited Cost of Service Study in 2021, a process that began in 2016 but from which no findings have yet been forthcoming. It is hoped that once complete the study will show how Zambia can make its power sector more efficient and attractive to investors. Electricity tariffs increased by on average of 113% at the end of last December. While a step in the right direction, electricity tariffs are not yet cost reflective and prices will inevitably need to rise further if Zambia is to attract investment in power generation.

Meanwhile, the Covid-19 pandemic has prompted global oil prices to fall this year as demand for crude oil has dropped. The price of crude oil has fallen from around US$64 per barrel in January to US$40 at the time of the budget. Unfortunately, these lower prices have not been passed onto Zambian consumers in the form of reduced fuel prices. The Energy Regulation Board said the weakened kwacha combined with logistical challenges due to Covid-19 had negated the possibility of passing on savings to customers.

Mining needs a stable tax regime

Mining continues to be the mainstay of Zambia's economy, contributing 10.0% of GDP growth and 25.0% of tax revenue from 2017 to 2019 (Source: ZEITI).

Copper prices have been volatile this year, ranging from a low of US$4,617 per tonne in March to a high of US$6,837 per tonne on September 22 (Source: London Metal Exchange). Although overall copper production volumes were up during the first half of the year to 523,000 metric tonnes, an increase of 16.5% compared to the same period in 2019, copper export earnings were down 14.8% on account of average lower prices.

A stable tax and legal framework for the mining sector is critical if Zambia is to maximise the sector's potential and encourage new investment. This year, Government has said it will remove import duty on copper ores and concentrates from 2021, which is a positive step. Changes to the mining tax regime in previous years have threatened to undermine Zambia's reputation and it is commendable that Government has not made any punitive changes to the existing tax regime for 2021.

Uncertainty also remains over the mines' power supply following Government's decision to declare Copperbelt Energy Corporation's distribution lines a common carrier via the introduction of Statutory Instrument 57 of 2020. CEC, which has traditionally transmitted power to the mines, previously had a 20-year bulk supply agreement with the mines, but this expired in March this year.

Government reconfirmed in the budget that it plans to buy more shares in Mopani Copper Mines, which halted operations in April, citing disruption from the Covid-19 outbreak and low copper prices. The mine subsequently resumed operations in May after Government threatened to revoke its license in response.

Government is also seeking a strategic investor for Konkola Copper Mines after the mining company was put into provisional liquidation in 2019. It is not known if a partner has yet been identified.

Agriculture's earnings potential yet to be fully realised

Zambia has enjoyed a bumper maize crop this year following good rains during the 2019/2020 growing season. Maize production increased 69% to 3.4 million metric tonnes compared to 2 million metric tonnes last year, and this has in turn eased food inflationary pressures.

The FRA announced a maize buying target of one million metric tonnes in May this year, over three times the 300,000 tonne 2019 target. Government said the increase was to ensure food security in the wake of Covid-19. Agricultural production is expected to fall this year due to the pandemic and there are concerns this will affect food prices and security in 2021.

There are some positive additions for agriculture in this year's budget. The Hon.Minister announced that the Industrial Development Corporation will build a tomato and fruit processing plant in 2021, adding further impetus to local horticultural production. Local fruit and vegetable producers have benefited from the President's directive earlier this year for supermarkets to buy local where possible during the pandemic. Government has also announced zero rate on all tractors for VAT purposes.

In addition, Government has said it plans to move 100% of the Fertiliser Input Subsidy Programme to the e-voucher system.

However, the agriculture sector continues to face barriers to maximising its potential as the engine of Zambia's economy. Most notably, maize export bans prevent farmers selling excess harvest to the region and beyond. With many of Zambia's neighbouring countries currently experiencing maize deficits, this is a missed opportunity to bring in much-needed forex. Export bans also fuel smuggling. Better transparency and predictability with regards maize export policy would do much to help farmers take advantage of regional supply and demand dynamics.

Monetary policy – fighting inflation

Zambia has benefited from stable economic policy under the reign of former Bank of Zambia governor Dr Denny Kalyalya. However, higher energy and food prices combined with the depreciation of the kwacha meant inflation rose to 15.5% in August 2020 compared to 11.7% at the end of December 2019. This is double the medium-term target range of 6.0%-8.0%. Going forward, the Bank will focus monetary policy on bringing inflation back into this range.

In August, the Monetary Policy Committee lowered the policy rate to 8.0% to maintain stability in the financial services sector and encourage local borrowing.

Although the banking sector remains stable in terms of banks' capital adequacy positions, earning performance and improvement in liquidity, profitability has declined due to higher provisions for non-performing loans. The ratio of non-performing loans to total loans rose to 12.6% in July from 8.9% last December as businesses struggled to repay loans in the wake of Covid-19, exceeding the prudential threshold of 10.0%.

Debt management key to economic stability

With Zambia's economy facing serious challenges in the months ahead in the form of reduced productivity, employment and earnings due in part to Covid-19, it is imperative that dismantling the country's large debt burden takes precedence. Government spending and contraction of new debt must also be curbed.

Government has taken positive steps to this end by drawing up a debt management strategy that includes freezing pipeline loans and reviewing existing projects. This should help in negotiations with the IMF. Indeed, Government must do all it can to meet the criteria needed to access a financial support programme from the IMF if it is to bring the economy back in line.

The Economy

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The Economy

GDP at a glance

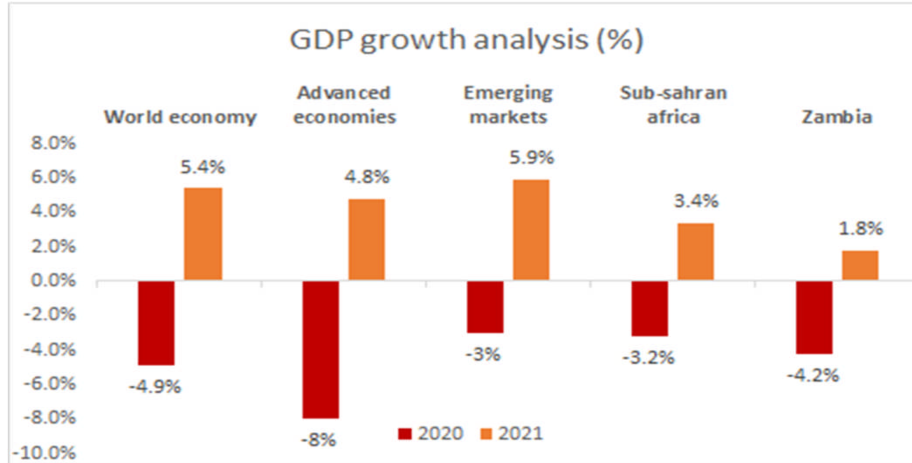
-4.2%
Projected GDP growth 2020

1.8%
Target GDP growth: Budget 2021

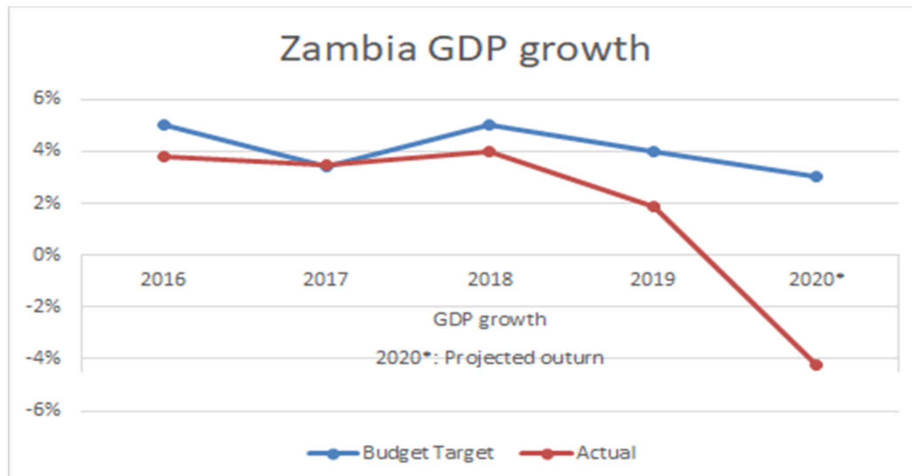
3%
Target GDP growth: Budget 2020

The Global economy is projected to contract by 4.9% in 2020. The Covid-19 pandemic has had a negative impact on activity in the first half of 2020. It is expected that global growth will rebound in 2021 but this is dependent on the evolution of the pandemic and the speed of developing a vaccine.

Zambia's real GDP is projected to contract by 4.2% for FY 20. This is in sharp contrast to the 3% growth targeted that was set in the 2020 budget. This is largely attributable to the Covid-19 pandemic and the electricity rationing programme which have exacerbated already existing vulnerabilities. Target growth for FY 2021 has been set at 1.8%. With the exception of FY 2017, over the past five years, the actual GDP growth rates have been lower than the set targets.



Source: IMF, World Economic Outlook Update, June 2020



Source: Zambia Statistics Agency (Actuals), National Budget Speech (Target)
**2020 actual is based on the projected GDP for the year*

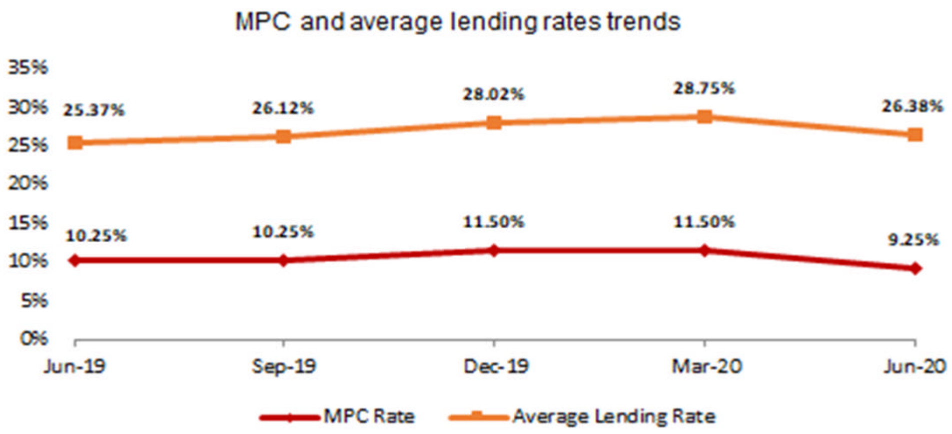
Monetary policy

Bank of Zambia ("BoZ") revised the monetary policy rate downwards from 10.3% in August 2019 to 8.0% as at August 2020. However, the average lending rate rose from 25.4% to 26.4% during the same period.

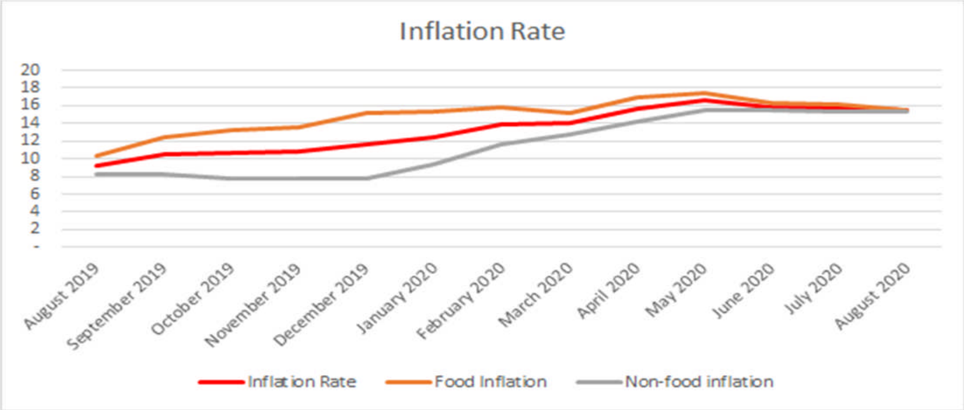
The annual inflation as at August 2020 stood at 15.5% in comparison to 9.3% in August 2019, reflecting the challenges faced by the economy.

BoZ has projected inflation to steadily decline, this is mainly due to the moderation of food prices on account of the significant improvement in the supply of most staples.

The key risks to the assessed inflation outlook include further deterioration of the fiscal deficit, adverse impact of monetary expansion, a deeper than projected global recession, as well as prolonged and extended electricity load shedding. The depreciation of the Kwacha will also have an adverse effect if not controlled.



Source: Bank of Zambia



Source: Central Statistics Office

Balance of payments and foreign exchange reserves

The Kwacha continues to exhibit considerable fragility and depreciated from K14.05 at the end of December 2019 to K19.95 as at 22 September 2020, representing 41.9% depreciation.On a year-on-year basis, this represents a 51.4% depreciation from K 13.17 as at 23 September 2019.

This depreciation was largely on account of currency supply constraints and increased demand for foreign exchange for debt service and the importation of agricultural inputs, health related supplies and petroleum products.

Gross international reserves remained relatively unchanged at US$1.4 billion year on year, representing 2.3 months of import cover.

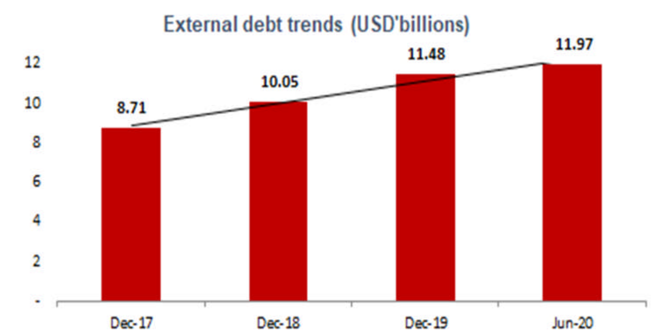
Debt management

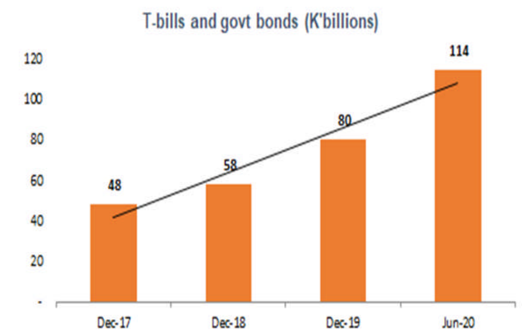
The Government has embarked on a number of initiatives to restore public debt sustainability including:

- restructuring of the public external debt;
- cancellation of US$1.1 billion pipeline loans;
- project re-scoping savings of US$280 million;
- a freeze on the contraction of new commercial external debt has been stopped; and
- engaging the IMF to obtain support under the G20 Debt Service Standstill Initiative.

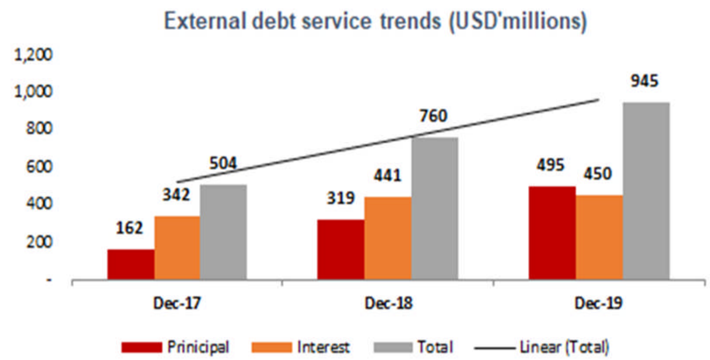
External public debt stock increased to US$11.97 billion as at end-June 2020 (December 2019: US$11.48 billion), representing 52.0% of GDP. Including total Government guarantees of US$ 1.58 billion (net basis) and stock of Government securities of US$ 5.72 billion (K 114.3 billion), total debt to GDP is estimated at about 85.0%, excluding stock of domestic arrears.

On the back of a consent solicitation seeking to suspend three eurobond debt repayments from falling due in October and December 2020, and March 2021, Fitch and Moody's downgraded Zambia's credit rating. While it remains debatable as to whether the current rating constitutes a technical default, there is no doubt that strict implementation of the debt management policy and acceleration of discussions with the IMF have become a matter of utmost urgency.

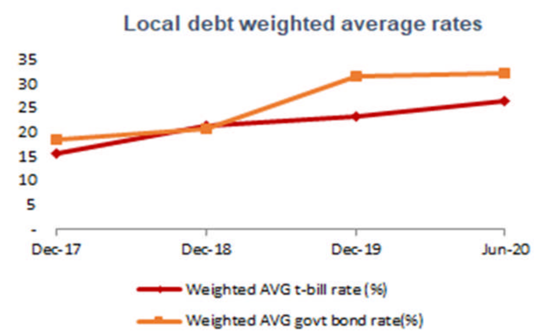




Source : Ministry of finance



Source: Ministry of Finance



Source: ***Bank of Zambia***

Fiscal developments

- Fiscal spending pressures coupled with the COVID-19 impact on the domestic economy has led to a sharp decline in Government revenue. In light of this, bringing the fiscal deficit to sustainable levels over the medium-term has become even more challenging.
- The Government's stimulus package amounts to less than 1.0% of GDP according to the IMF, and is largely in the form of spending to clear existing Government arrears to business and public workers.
- In order to restore macroeconomic stability and achieve sustainable economic development, urgent macroeconomic adjustment measures, underpinned by fiscal consolidation and the restoration of debt sustainability remain critical.

FY 2021 budget projected expenditure and income

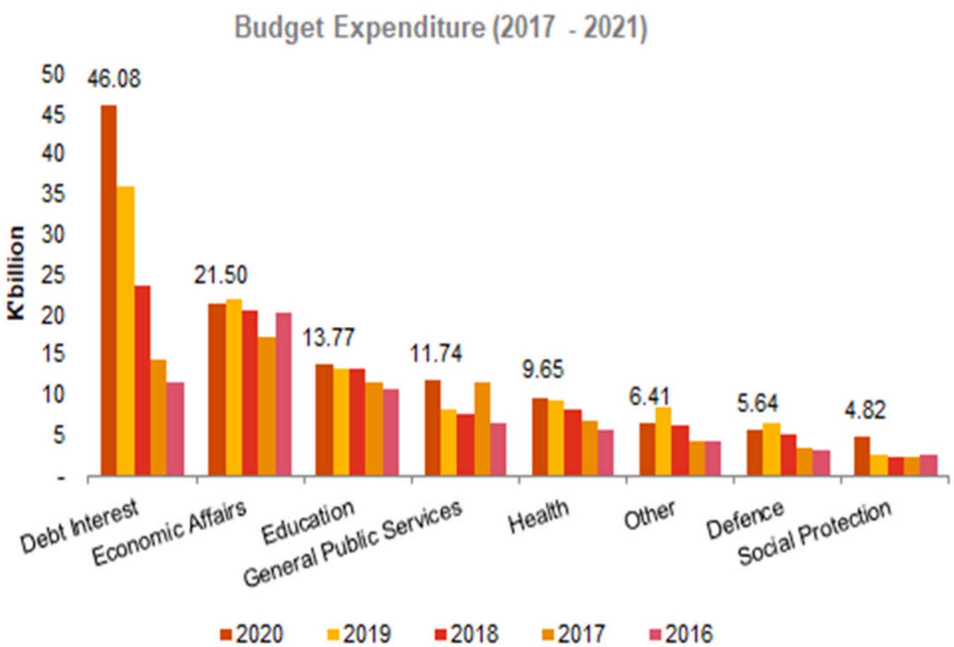
The Projected expenditure for FY 20 has been revised from the initial budget of K106.0 billion to K111.9 billion, representing an increment of 5.6%. This additional expenditure is mainly attributed to Covid-19 containment measures and activities associated with the agricultural sector.

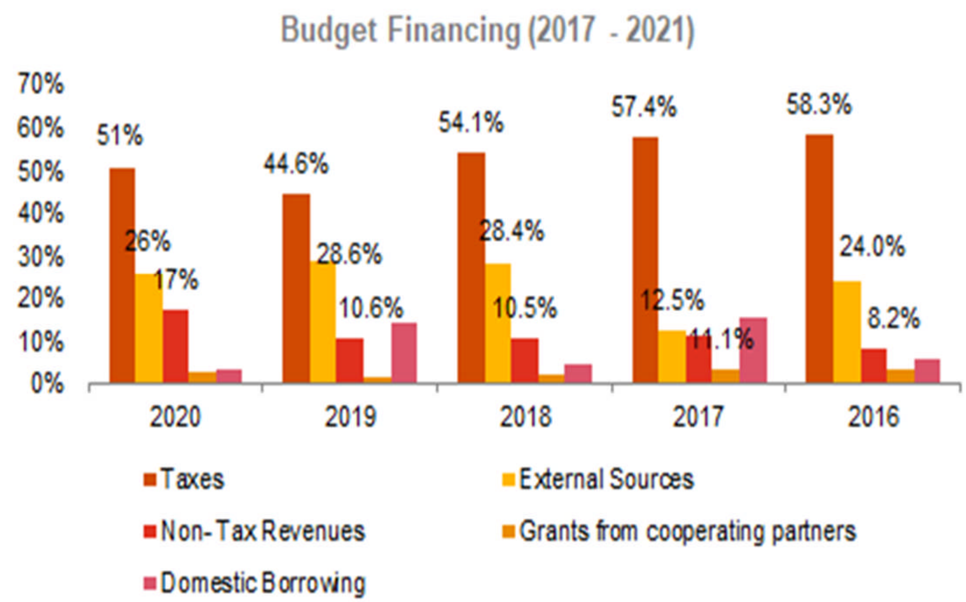
Expenditure for FY 21 has been budgeted at K 119.6 billion, an increase of 6.7% from FY 20 estimates (K 111.9 billion) or 32.6% of projected GDP.

Of the total budget of K119.6 billion, K 46 billion, representing 38.5% (2019: K36 billion) will go towards debt service.

80.0% of the budget is to be financed by external and domestic debt (43.0%) and local taxes (37.0%).

Source	2021 K'billion	2020 K'billion	Movement (%)
Domestic & Local Borrowing	51.65	31.00	40%
Local Taxes	44.00	44.50	-1%
Non Tax Revenues	12.71	18.15	-43%
Customs Duties and Excise	9.27	9.20	1%
Grants	1.98	3.20	-62%
Total	**119.61**	**106.05**	**11%**





Source: Ministry of Finance

Taxes

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Direct Taxes - Pay As You Earn

More money in the pockets of employees

The adjustment will increase disposable income available to employees and help mitigate the increase in living costs.

Changes in the tax free band

Increase in annual tax exemption threshold for PAYE from K36,000 to K48,000 and adjustment of tax bands. This will increase disposable income by a minimum of K175 per month if the monthly income is equal to K4,000.

The proposed measure is aimed at increasing disposable income of taxpayers.

Income	2021 Tax rate	Income	2020 Tax rate
First K48,000	0.0%	First K39,600	0.0%
From K48,001 to K57,600	25.0%	From K39,601 to K49,200	25.0%
From K57,601 to K82,800	30.0%	From K49,201 to K74,400	30.0%
From K82,801	37.5%	From K74,401	37.5%

Reference interest rate applicable on employee loan interest benefit

The Hon. Minister proposes to adjust the reference interest rate to be used in the determination of tax applicable on employee loan interest benefits to be the Bank of Zambia policy rate plus a margin of 2.0%.

This will allow for uniformity of interest rates used for assessment of the loan benefit.

Differently abled person - increase in monthly tax credit to individual

Increase in the monthly tax credit for differently abled persons from K250 to K500.

Direct Taxes - Corporate Income Tax

Presumptive tax for the gaming and betting industry

Increase the tax rate on betting from 10.0% to 25.0 % on gross takings

The measure seeks to harmonise the tax rate of betting with that of similar games. Currently, the betting games are charged a presumptive tax at the rate of 10.0 % on gross takings. This measure is expected to generate additional revenue to the fiscus of K59.3 million.

Development allowance for horticulture and floriculture subsectors

Increase in the number of years for claiming development allowance

The Hon. Minister proposes to increase the amount of unutilised development allowance that can be carried forward. Currently the taxpayer can carry forward up to 3 years worth of unutilised development allowance up to the first year of production. Going forward the taxpayer will be allowed to carry forward up to 5 years worth of unutilised development allowance up to the first year of production. The 10% development allowance is granted for rose flowers, tea, coffee, banana plant or citrus fruit trees or other similar plants or trees that are planted.

This measure will enhance relief provided to the horticulture and floriculture subsectors.

Clarification on interest deductibility

The Hon. Minister proposes to amend Section 29 of the ITA to clarify that the limitation rule applies to all interest deductions on borrowings of both revenue and capital nature.

Differently abled person - increase in allowable deduction to employer

Increase the amount allowable for deduction by the employer for employing a differently abled person from K1,000 to K2,000 per annum.

Direct Taxes- Corporate Income Tax

Tourism sector relief

Reduction in tax rate on income earned by hotels and lodges from 35.0% to 15.0%

The Hon. Minister proposes to reduce the corporate income tax rate to 15.0% on income earned by hotels and lodges on accommodation and food services.

As the reduced tax rate will apply specifically to income from accommodation and food services, other income from services such as beverages, tours, and adventure activities may still be taxable at the rate of 35.0%. This may necessitate the segmentation of income and expenses between the different sources to ensure that the appropriate tax rate is applied to each income source.

Local value addition

Introduction of local content allowance for income tax purposes

The Hon. Minister proposes to introduce a local content allowance at the rate of 2.0% to encourage value addition to products such as mangoes, pineapples and cassava. This measure is intended to promote the utilisation of selected local raw materials in manufacturing. Further clarification is required on what the 2.0% allowance will be based on and whether this will apply to non edible raw materials.

Taxes

Direct Taxes

Citizen investment incentives

To encourage citizen participation in investments eligible for incentives under the ZDA Act, The Hon. Minister proposes to reduce the investment threshold from US$500,000 to US$100,000 for qualifying Zambian citizens intending to operate in a priority sector, a multifacility economic zone or industrial park.

Over the years incentives which provided for tax exemptions and a reduction in corporate income tax and withholding tax rates have been withdrawn.

The only key incentives currently available are duty exemptions and an investment guarantee.

Direct Taxes - Transfer Pricing

Housekeeping measures

Transfer Pricing Country by Country Reporting

The Hon. Minister proposes to amend the Transfer Pricing Regulations to provide for Country by Country ("CbC") reporting. This is to provide for the automatic exchange of relevant CbC reports with other tax jurisdictions for entities operating in Zambia that are part of Multinational Enterprise Groups as a requirement under the Organisation for Economic Cooperation and Development ("OECD") Inclusive Framework on Base Erosion and Profit Shifting ("BEPs") to which Zambia is a member.

As a member country, Zambia is required to implement at a minimum the four essential BEPS Action Plans, which amongst other things facilitate the exchange of information between tax authorities of countries that are part of the BEPs Inclusive Framework initiative.

Increasing the threshold from K20 million to K50 million for local companies

The Hon. Minister proposes to amend the transfer pricing regulations to increase the annual turnover exemption threshold from K20 million to K50 million for local companies which are required to provide transfer pricing documents. Currently, only local companies with an annual turnover of K20 million and below are exempt.

Direct Taxes

Housekeeping measures

Keeping of books of accounts in local currency

The Hon. Minister proposes to amend Section 55(4) of the ITA to provide for the keeping of all books of accounts in Zambian Kwacha.

This amendment now clarifies that it is mandatory for all taxpayers, other than companies carrying on mining operations in Zambia that earn more than 75.0% of their revenue in foreign currency to keep all books of accounts in Zambian Kwacha.

Keeping of books of accounts in US$ by mining companies

The Hon. Minister proposes to amend Section 55 of the ITA to extend the keeping of books of accounts in US$ for mining companies whose foreign exchange earnings are from within Zambia.

This provision caters for mining companies that operate in Zambia and that sell their products **within** Zambia in foreign currency, which strictly speaking were previously not allowed to keep their books of accounts in foreign currency.

All statutory regulatory bodies to require TCC and TPIN

The Hon. Minister of Finance proposes to amend the ITA to mandate all statutory regulatory bodies to require a tax clearance certificate and Taxpayer Identification Number before registering or renewing membership or before issuing any licence, practicing certificate, permits or similar documents etc. Further, empower The Hon. Minister to issue a statutory order to exempt certain categories of membership. This measure is intended to improve tax compliance.

Further clarification is required on what membership renewals will be affected. Additionally, clarification will also be required on which statutory regulatory bodies are being referred to.

Overall it would appear that this provision seeks to improve/ widen the tax net.

Information held outside of the Republic or by a third party who is not a resident of the Republic

The Hon. Minister proposes to amend the ITA to clarify that the obligation to furnish information to the Commissioner-General extends to information that might be held outside the Republic or by a person who is not a resident of the Republic.

This provides Zambia with extensive authority to obtain information for operations undertaken by entities in foreign jurisdictions. The question arises as to whether these would breach sovereignty principles under international law.

Direct Taxes - Property Transfer Tax

Determination of realised value on indirect transfer of shares

The Hon. Minister proposes to amend the criteria for determining the realised value on indirect transfer of shares. The realised value of indirect share transfers will include:

- The proportion of the consideration for the transferred shares that relates to the value of the Zambian company; or
- The proportion of the nominal value of the transferred shares that relates to the value of the Zambian company.

This amendment refines the 2019 amendment to the Property Transfer Tax ("PTT") Act which sought to tax the indirect transfer of shares in a Zambian entity. Essentially it clarifies that the consideration/ nominal value for the indirect transfer of Zambian shares should be determined by taking into account only the proportion of the total consideration / nominal value received by transferor company that relates to the value of the Zambian entity.

PTT on indirect share transfers

The Hon. Minister proposes to amend the PTT Act to exempt from PTT the indirect transfer of shares where the value of shares transferred is less than 10% of the value of the Zambian company.

The exemption is to minimise the administrative burden on transfer of shares held by minority shareholders of the foreign company and for transfer of shares traded on the stock exchange.

Housekeeping measures

PTT exemption on Trusts

It is proposed that the PTT Act be amended to clarify that only Trusts that are approved as Public Benefit Organisations are exempt from PTT.

The proposed amendment will also align the PTT Act with the exemptions as per the Income Tax Act.

Foregn currency denominated transactions

The Hon. Minister proposes to amend the PTT Act by prescribing the exchange rate to be used to convert values on transactions denominated in foreign currency.

Currently, no guidance is provided in the PTT Act in this respect.

Direct Taxes

Withholding tax

Charging of WHT in respect of payments on royalty financing arrangements made by a Zambian resident to a non-resident

The Hon. Minister proposes to amend the ITA and provide for the charging of WHT on payments made by a Zambian resident to a non-resident in respect of royalty financing arrangements. This is in order to introduce WHT on payments made under royalty financing arrangements.

Royalty financing arrangements explained according to Inc.

Royalty financing is a relatively new concept that offers an alternative to regular debt financing (loans and trade credit) and equity financing (venture capital and share sales). In a royalty financing arrangement, a business receives a specific amount of money from an investor or group of investors. The money might be put toward launching a new product or expanding the company's marketing efforts. In exchange, the investor receives a percentage of the company's future revenues over a certain period of time, up to a specific amount. The investment can be considered an "advance" to the company, and the periodic percentage payments can be considered "royalties" to the investor.

Source: ttps://www.inc.com/encyclopedia/royalty-financing.html

Agricultural production, value addition and emphasis on compliance.

Indirect Taxes

VAT, Customs and Excise Duties

The indirect tax changes are focused on increasing agricultural production and value addition of the outputs within Zambia.

There is also an emphasis on compliance requirements with an increase in penalties for non compliance.

Indirect Taxes - Value Added Tax (VAT)

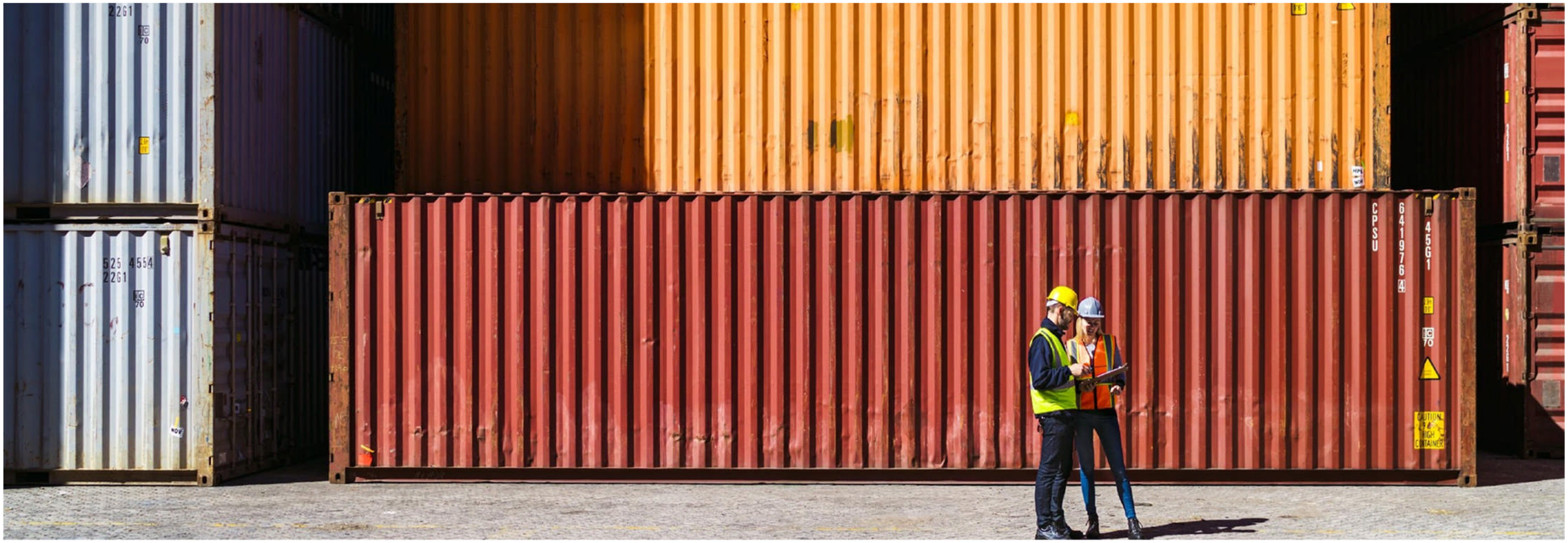
Zero rating of tractors

In order to encourage mechanised production in the agricultural sector, The Hon. Minister proposes to zero rate all types of tractors.

This is in line with Government's efforts to encourage diversification and increased production in the agricultural sector. Currently, only tractors above 90 horsepower are zero rated.

Zero rating of full body sanitisation equipment

The Hon. Minister proposes to zero rate equipment used for full body sanitisation for a period of one year. This measure is aimed at assisting curb the spread of Covid – 19. This measure takes effect at midnight on 25 September 2020.



Indirect Taxes - Value Added Tax (VAT)

Housekeeping measures

Electronic payment machines

The Hon. Minister proposes to amend Section 19 (1A) of the VAT Act to clarify that taxable suppliers are obligated to provide electronic payment machines at points of sale.

The proposed amendment also introduces a penalty on taxable suppliers who fail to comply with the requirement.

This measure is to improve administrative efficiencies and digitise the collection of tax. This will also assist the move to a cashless economy which is key to minimising tax evasion.

Definition of "place of supply of goods"

The Hon. Minister proposes to amend Section 11(1) of the VAT Act to provide clarity on the definition of place of supply for goods in Zambia.

Limitation in assessment period

The Hon. Minister proposes to amend section 21(6) of the VAT Act to clarify the point at which the two year limitation period on assessments of incorrect or inadequate returns commences.

Section 21(6) currently limits the timeframe within which the ZRA can re-open an assessment for VAT to within two years of when the Commissioner-General first had reason to believe that the assessment was incorrect or inadequate.

Penalties on false returns and statements

The Hon. Minister proposes to amend Section 43 of the VAT Act by introducing graduated penalties charged for submission of false returns and statements. The proposed rates are as follows:

Offence	Applicable penalty
First occurrence	Up to 60,000 penalty units (K18,000) per period audited.
Second Occurrence	Up to 120,000 penalty units (K36,000) per period audited.
Third Occurrence	Up to 240,000 penalty units (K72,000) per period audited.
Any repeat event beyond third occurrence	Will be deemed as tax evasion and escalated for treatment under Section 44 which provides for harsher penalties on account of evasion and for imprisonment upon conviction if found guilty.

Indirect Taxes - Value Added Tax (VAT)

Fine on tax evasion

To encourage tax compliance, The Hon. Minister proposes to amend Section 44(2) of the VAT Act by increasing the fine chargeable for tax evasion to 300,000 penalty units from the current 30,000 penalty units (i.e. an increase from K9,000 to K90,000).

Stiffer penalties on tax evasion

Replacement of Domestic Taxes and Commissioner - Domestic Taxes

The Hon. Minister proposes to amend the VAT Act by replacing the words “Domestic Taxes” and “Commissioner - Domestic Taxes” wherever they appear in the Act with “Zambia Revenue Authority” and “Commissioner-General” respectively.

This is aimed at removing the referencing ambiguity in the VAT Act and align with the current Zambia Revenue Authority structure.

Indirect Taxes - Customs and Excise Duty

Removal of import duty on copper ores and concentrates

The Hon. Minister proposes to remove import duty on copper ores and concentrates in order to encourage local processing.

This measure should enable better utilisation of the existing mineral processing capacity.

Horticulture and floriculture

To boost activity in the horticulture and floriculture subsectors, and to promote non-traditional exports, The Hon. Minister proposes the following measures:

- Suspension of import duty on biological control agents.
- Removal of import duty on greenhouse plastics.
- Reduction of import duty from 25.0% to 15.0% on selected bulb plants and seedlings.
- Reduction of import duty on secateurs from 15.0% to 5.0%.
- Reduction of import duty on pruners from 25.0% to 5.0%;
- Removal of import duty on selected agricultural clippers.
- Reduction of import duty on exfoliated vermiculite from 5.0% to 0.0% and from 25.0% to 0.0% on amaryllis bulb plants.

Removal of export duty on crocodile skins

The Hon. Minister proposes to remove the 10% export duty on crocodile skins.

This measure should revive crocodile farming and promote non-traditional exports.

Suspension of import duty on refrigerated trucks

The Hon. Minister proposes to suspend import duty on importation of refrigerated trucks.

Increase import duty on agro products

The Hon. Minister proposes to increase customs duty from 25.0% to 40.0% on specified beef and beef processed products, pork and pork processed products, chicken and chicken processed products and fish imported from outside the SADC and COMESA regions.

This measure is aimed at protecting and promoting growth of the domestic livestock and fisheries industries.

This measure may also reduce demand for imported produce and help with the balance of payments.

Tourism - Suspension of import duty on safari motor vehicles

The Hon. Minister proposes to suspend import duty on safari and game viewing motor vehicles, tourist buses and coaches.

This measure is aimed at stimulating activity and investment in the tourism sector amid the effects of the Covid-19 pandemic.

Indirect Taxes - Customs and Excise Duty

Increase of excise duty on cigarettes

In line with the WHO Framework Convention on Tobacco Control to reduce consumption thereof, The Hon. Minister proposes to increase the excise duty rate on cigarettes from K265 to K302 per mille.

Introduction of surtax on undenatured ethyl alcohol

The Hon. Minister proposes to introduce a surtax of 20.0% on importation of undenatured ethyl alcohol that has alcoholic volume strength of 80.0% or higher.

This measure is aimed at encouraging local manufacture of ethyl alcohol.

Ad valorem import duty on high value motor vehicles

The Hon. Minister proposes to remove high value motor vehicles from the definition of used motor vehicles and instead apply an ad valorem import duty.

This measure is aimed at increasing Government revenue on imported motor vehicles falling within the high value bracket.

Currently, import duties on second hand motor vehicles older than 2 years are calculated based on the type of vehicle and the year of manufacture of the vehicle.

Introduce excise duty on flat plastic bags

The Hon. Minister proposes to introduce excise duty of 30.0% on flat plastic bags.

This measure is aimed at discouraging the use of non biodegradable plastic bags and reduce environmental pollution

Indirect Taxes - Customs and Excise Duty

Housekeeping measures

Supervision of activities

The Hon. Minister proposes to amend Sections 115 and 117 of the Customs and Excise Act. The amendments are aimed at extending compliance obligations for distributors and dealers of goods subject to excise duty.

The measure once implemented will enforce compliance monitoring across the entire supply chain of goods subject to excise duty. This could increase the administrative burden and cost of compliance.

Record keeping

It is proposed that the Customs and Excise Act be amended to extend the requirement to maintain records of transactions subject to excise duty to service providers.

False invoices, false representation and fogery

The Hon. Minister proposes to amend Section 141 of the Customs and Excise Act to extend the application of penalties for providing false invoices and/or false representations to service providers of excisable services.

Credit mechanism for intermediaries

The Hon. Minister proposes to introduce a credit mechanism for intermediaries on excise duty paid on airtime.

It appears this measure will be similar to the VAT credit mechanism and is aimed at avoiding double taxation of excisable services

Compliance requirements enhanced

Introduction of a fine - Pre-registration facilities

The Hon. Minister proposes to introduce a fine for failure to utilise pre-registration facilities for goods that require preclearance.

This measure seeks to encourage importers to utilise the facility, provide vital advance clearance information to the ZRA and to facilitate timely importation

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Other non tax measures

Tourism

- Amend the hospitality and tourism regulations (Tourism Levy) to replace the reference to the Income Tax Act with Value Added Tax (VAT). The measure seeks to align the tourism levy to the VAT Act.
- Amend the hospitality and tourism regulations (Tourism Levy) to provide for the imposition of penalties for under-declaration on tourism levy returns.

Miscellaneous

- Amend Section 4(3) of the Skills Development Levy to correct a drafting error by replacing the word ‘employee’ with ‘employer’.
- Increase the commissions paid to tax agents from 3.0% to a maximum of 10.0%.

Sector Analysis

4

Financial Services

Our view

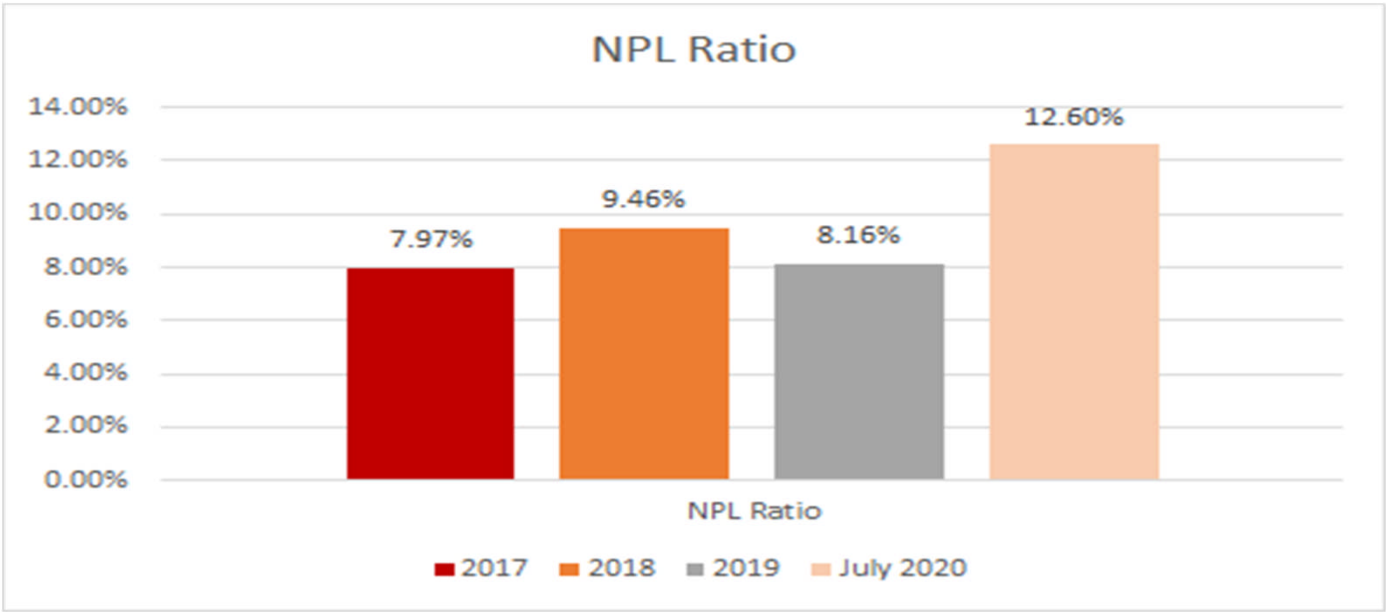
The economy is expected to contract by 4.2% in 2020 and this will invariably affect the performance of the financial services industry. In response to the prevailing challenges, in August 2020, the BoZ reduced the Monetary Policy Rate by 125 basis points to 8.0% from 9.25%. The reduction of the MPR is expected to culminate in the further reduction in market interest rates. Generally, interest rates have been on a downward trajectory during the year on account of previous rate-cuts and improved liquidity.

The overall profitability of the banking sector declined due to higher provisions on non-performing loans ("NPL"). The ratio of non-performing loans to total loans rose to 12.6% in July 2020 from 8.0% in December 2019, exceeding the prudential threshold of 10.0%.

The NPL ratio increased largely on account of the effects of the Covid-19 pandemic. Expectedly, the increased level of credit risk has resulted in a slowdown in private sector credit as banks exercise restraint in advancing credit in a weakened economic environment. In addition, during the period to 22 September 2020, the Kwacha has depreciated by approximately 41.9% against the US$. This depreciation has subsequently contributed to the increase in inflation.

The NPL ratio for non-bank financial institutions remained above the prudential maximum benchmark of 10.0% at 24.9%. The considerably high level of NPLs continues to be attributed to challenges in collection of repayments on salary backed loans and delayed repayments from the informal sector customers, which have been heavily affected by Covid-19.

Further, the accumulated domestic arrears, particularly to Government contractors and suppliers, remains a concern as it continues to hamper the ability of the contractors to service their obligations.



Source: Bank of Zambia

Zambia National Budget 2021

Our view

In response to the deteriorating economic environment and negative effects of the Covid-19 pandemic, the Central Bank introduced measures aimed at safeguarding the stability of the financial system. Some of the more notable measures included:

- Targeted Medium-Term Refinancing Facility ("TMRF") with an initial amount of K10 billion to provide liquidity.;
- Scaled-up open market operations;
- Revised rules in the operation of the interbank foreign exchange market;
- Revised loan classification and provisioning rules; and
- Extension of the transitional arrangement in amortising day 1 impact of IFRS 9 adoption on impairment.

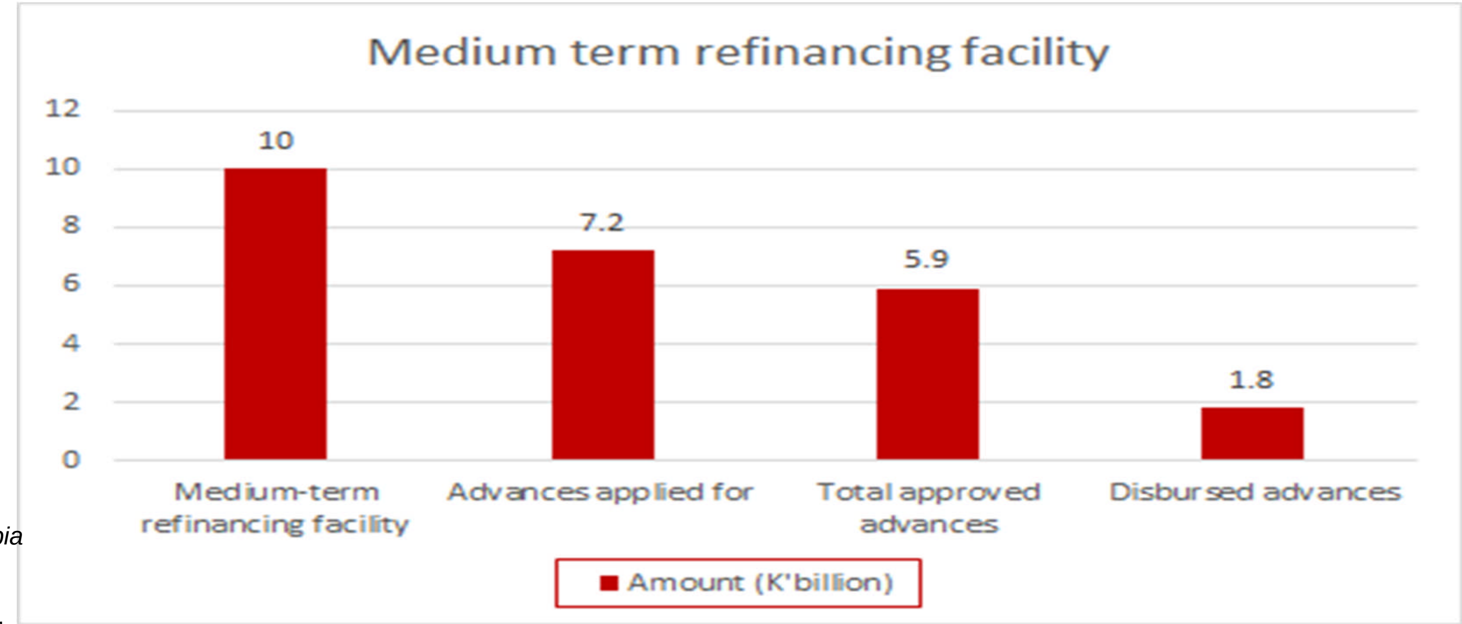
The BoZ had received applications worth K7.2 billion on the TMRF and approved K5.9 billion of those loans as at 22 September 2020. However the uptake was quite low at 18.0% amounting to K1.8 billion. A total of K1.5 billion was disbursed to banks and the remaining K0.3 billion to non banking financial institutions.

Considering the uncertainties surrounding the Covid-19 pandemic and the path to eventual economic recovery, it is critical that the BoZ accelerates the disbursement of the TMRF as timely intervention will provide much needed relief to borrowers.

From a market perspective, the parent companies of Cavmont Bank Zambia and Access Bank Zambia reached an agreement that will result in the merger of the two banks. The arrangement is expected to place the merged entity on stronger foundation for sustainable operations and future growth.

Collectively, the banking sector remains resilient as evidenced by the strong capital position of K11.9 billion as at June 2020 (December 2019 K11.3 billion). This was against a minimum requirement of K7.5 billion, leaving an excess of K4.4 billion.

The banks are positioned to withstand the impact of the current economic downturn. Majority of the foreign banks are adequately capitalised while the capital position for local banks also remained relatively stable.



Source: Bank of Zambia

Mining Sector

> *Maintain and grow local and foreign investor confidence*
>
> *This will lead to breaking new grounds in the mineral exploration activities.*

Our View

On the global market, Zambia remains the second largest producer of copper in Africa after Congo DR, and the single largest source of foreign exchange in Zambia, generating almost 70.0% of total export receipts. Whilst the mining sector accounted for an average of 10% to the country's GDP in 2017 to 2019, its contribution to Government tax revenue averaged over 25.0% (Source: ZEITI). It also continues to be an important source of formal employment in Zambia accounting for at least 25.0% of the private sector and 10.0% of total formal employment sector (Source: IMF). Mining thus remains a key sector for Zambia.

It is gratifying to note that production increased by 4.0% in the first five months of 2020 compared to the same period in 2019 which in turn resulted in increased copper export volumes. With the reported increase in copper prices, we expect the mining houses to continue taking advantage of this and sell as much as possible while the price remains favourable.

Zambia's FDI to the sector remains dominated by large mining investors from Canada, Australia, United Kingdom, China and the United States. FDI flows in Zambia significantly dropped by US$700 million (63.0% drop) from 2017 to 2018, but has since increased from US$408 million in 2018 to US$753 million in 2019, up by 8.5% (Source: UNCTAD's 2020 World Investment Report), which is encouraging.

Government's decision to seek a strategic investor for Konkola Copper Mines is a welcome move to boost investor confidence. This will further help relieve Government of its constrained financial resources and reserves.

There is past evidence of Governments taking over mining companies (e.g Coldeco in Chile) and successfully running them to retain profits year after year. However this comes with significant investments from a financial and human capital perspective. As Government continues negotiations with Glencore, Government will need to consider among other things, the impact on already constrained resources that will be needed to fund and support the mine which currently has financial and operational challenges.

Government's 2021 budget commitment to its mining sector diversification strategy into other minerals aside from copper, particularly Gold, is a good move. This should make it possible for Zambia to take advantage of the wealth surrounding the mineral which continues to have favourable price stability. According to lme.com, Gold price increased from ~ US$1,525 per ounce in January 2020 to ~ US$1,965 per ounce in August 2020. Further, related LME forward curve prices for Gold and other minerals indicate high prices.

A number of potential mineral exploration areas are under-developed. Government could consider entering into private partnerships programmes with mining stakeholders to expedite the road completion project which should positively contribute to mineral exploration activities. We note that Government has in place the Improved Rural Connectivity Project covering 3,375 km of rural road of which 501 km have been contracted out and 82 km completed.

A stable tax and legal framework for the mining sector is critical if Zambia is to maximise the sector's potential and encourage new investment. Government's budget pronouncement to remove import duty on copper ores and concentrates from 2021, and not making any punitive changes to the existing mining tax regime is commendable .

Electricity sub-sector

Our view

Zambia continues to experience a power deficit. This is as a result of the continued insufficient generation of water coupled with delay in completion of projects such as the 750 megawatts Kafue Gorge Lower ("KGL") hydroelectric power station. Government states that the KGL project is almost complete and that 300 megawatts is expected to be added to the national grid by the end of the year. This should result in a significant reduction in the load shedding currently being experienced in the country.

Following the 2019/2020 rainy season, which was better than the 2018/2019 season, the Kariba dam has been operating at 31.6% usable storage (2019: 17.9%) *(Zambezi River Authority).*The 24th Southern African Regional Climate Outlook Forum (SARCOF 24) forecast "normal to above normal" rainfall in the 2020/2021 rainy season. Therefore, improved rainfall is likely to improve the electricity generation capacity of the country's various hydro power stations..

The country continues to be heavily reliant on hydro power. With the uncertainty brought about by climate change, it is imperative that deliberate efforts to diversify to solar and other sources of renewable energy continue to be made. There continues to be a demand for power in the southern african region which creates an opportunity for the country to have a trade surplus from electricity exportation utilising the Southern Africa Power Pool.

With the new reforms enacted in 2019 and 2020, namely the Energy Regulation Act and Electricity Act, the Government is hopeful that this will enable the private sector to invest in the electricity sector.

In line with the national energy policy that aims to promote cost reflective tariffs in the electricity subsector, the ERB successfully relaunched the electricity Cost of Service Study ("COSS") on 3 December 2019 with funding from the African Development Bank (AfDB).

Although not completed within the last 2 budget cycles, Government through the ERB has committed to completing the study in 2021. The study could not be performed at the planned time in 2020 because of the effects of the Covid-19 pandemic.

Completion of the COSS is critical given that over the years, investor forums such as the Zambia International Mining and Energy Conference ("ZIMEC") have cited this as a hold up for investment in new generation and transmission projects (mainly renewables), arising from uncertainties to give reasonable assurance of positive returns on investments.

Notwithstanding the delay in COSS, the ERB approved ZESCO's application to increase tariffs by an average of 113.0% across its customers except for mining, exports and Power Purchase Agreements ("PPA") based customers. This was aimed at moving extra steps towards implementing a cost reflective tariff for ZESCO. This progressive approach on tariffs is what we encourage the Government, through ERB and ZESCO, to implement in the 2021 National Budget commitment on tariffs renegotiations with Independent Power Producers ("IPPs").

Petroleum subsector

Our view

The primary focus area of Government in 2020 was to enhance the regulations and policies in the subsector. In order to achieve this, Government is in the process of repealing the Petroleum Act to pave the way for the enactment of a Petroleum Management Bill. The Bill has been pending since the pronouncement was made by the former Finance Minister, Hon. Felix Mutati, in November 2016. A key intention of the reforms is limiting the role of Government in fuel procurement, which in turn is aimed at enhancing local entrepreneur participation in the sector, and creating an enabling environment for elimination of any fuel procurement inefficiencies.

According to the World Bank, monthly average crude oil prices plunged by approximately 50.0% between January 2020 and March 2020, reaching historic lows in April 2020 with some benchmarks trading at negative levels. Prices are expected to average between US$35/barrel - US$40/barrel in 2020 (2019: US$61/barrel). Locally, The Zambian Kwacha depreciated against the US Dollar by 22.7% in the first half of 2020. In the last 3 months (July - September), the Kwacha has further depreciated by 10.0%.

In spite of the reduction in crude oil prices, Zambia's pump price has not changed since the last price adjustment in December 2019. The ERB attributed the lack of price adjustment to old feedstock and logistical challenges during the Covid-19 pandemic, which hampered the ability of the country to benefit from depressed prices.

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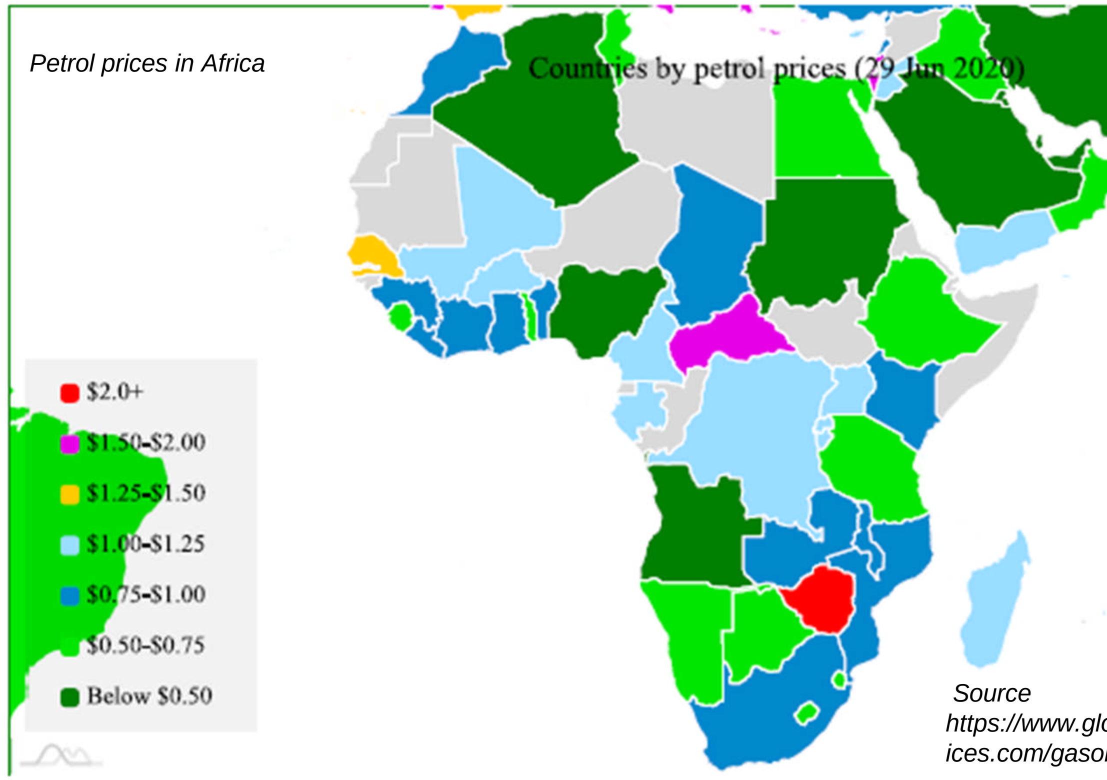
Petrol prices in Africa



Source https://www.globalpetrolprices.com/gasoline_prices/

The ERB position was also shared by the African Energy Commision in their report on the impact of Covid-19 on the African Oil Sector, stating that because of low per capita consumption of oil for transportation in many African countries, coupled by storage and logistics constraints, there would be no benefit realised from lower prices.

Zambia's current petrol price is comparable to the global average price which was at US$0.97/ltr on 29 June 2020. According to global statistics, it is expected that poorer countries and the countries that produce and export oil will have significantly lower prices. The difference in prices across countries are mainly due to various taxes and subsidies for fuel.

Agriculture Sector

Our view

The 2021 budget allocation to the FISP has been increased by about 300.0% to K 5.7 billion (2019: K1.4 billion). While this is commendable, the program is mainly utilised for the production of maize, which may represent a misalignment from the Government's diversification strategy within the agricultural sector. For the sector to deliver to expectations, there is need for increased production and productivity and promotion of value addition to crops and livestock, which would improve foreign exchange earnings and stimulate job creation.

For the sector to achieve some of the initiatives outlined in the 7th National Development Plan (2017-2021), we propose the following interventions:

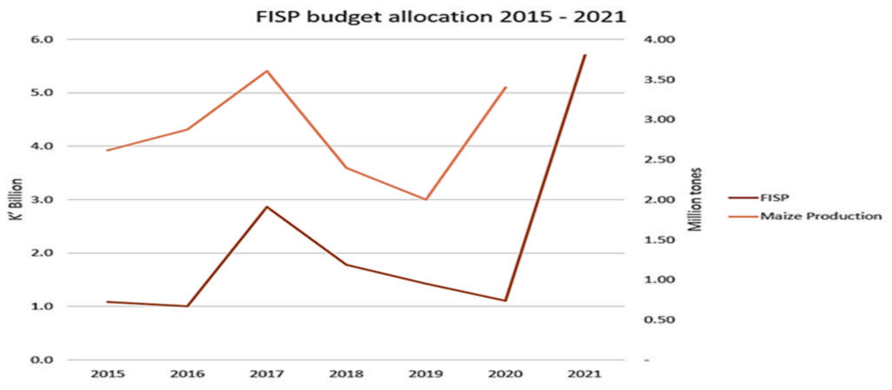
- Enhance the supply value chain which promotes the linkage between agricultural produce and agro processing. This has proved to be a success for regional players such as South Africa. Currently the emphasis is on the input side of the chain. We welcome the move to establish the tomatoes and fruit processing plants in 2021.

- Government should provide training to farmers on the various trade agreements it has with other countries such as the Common Market for Eastern and Southern Africa ("COMESA"), Trade and Investment Framework Agreement ("TIFA") and Southern African Development Community("SADC") and facilitating access to these markets for sale of agro processed goods.

- Increased rural connectivity to established markets. In the 2021 National budget, Government plans to increase rural road connectivity through the construction of 3,375 Km road network, of which 501 Km has been completed to date. This should enhance market linkages of rural farmers to the markets..

- Lobby for more donor-led funding e.g the Zambia Challenge Fund, which is sponsored by the European Union. These funds have increased participation of smallholder farmers in market-integrated, nutrition-sensitive value chains and improved access to finance.

- Ensure crop prices are cost reflective. Over the years, farmers have raised concerns that the floor price for Maize is not cost-reflective because the past years depreciation of the kwacha means that there are increased costs associated with importing agricultural inputs and machinery. A cost reflective floor price will encourage more farmers to grow such crops.



Source: 2015 - 2018 - Food and Agriculture Organisation
2019 -2020 - 2021 National Budget Speech

These additional costs are then passed on to the farmers, who at the same time face low floor producer prices.

- Enhance irrigation schemes countrywide to reduce the adverse effects of droughts. As the irrigation schemes depend on consistent power supply, Government should support renewable energy source power projects such as solar being implemented by private companies such as the Copperbelt Energy Corporation Plc ("CEC"). Government currently has the Irrigation Development & Support Project ("IDSP") running which is expected to improve the ability of the small holder farmers to irrigate their holdings and improve on non-rain dependent farming in the sector.

- The completion of the Lunga and Chunga Solar Mini Grids in Luapula and Central Provinces will also enhance the use of sustainable and climate resilient energy in the agriculture sector. We commend Government for these initiatives which are aimed at improving access to electricity in the rural areas.

- Early delivery of inputs and other agricultural accessories compared to prior years - driven by early contracts awarded to the suppliers. In respect of this, we have noted Government's commitment to ensuring that all agricultural inputs such as fertiliser, seed and agro-chemicals reach the farmers before the onset of the rainy season as demonstrated when the president flagged off the 2020/2021 input distribution exercise.

Manufacturing Sector

Our View

As Zambia is moving towards a diversified economy, the manufacturing sector is becoming much more important to the long term economic growth and employment strategy of the country. We have highlighted some of the vital aspects in the sector:

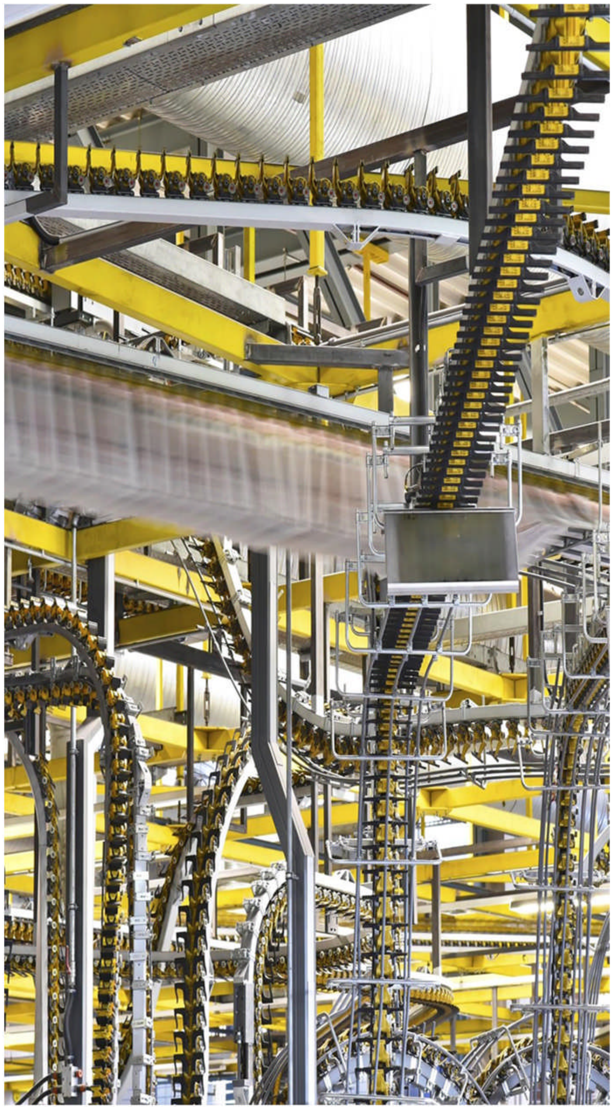
- According to a presentation made by the Zambia Association of Manufacturers ("ZAM") in April 2020, Covid-19 has negatively impacted the manufacturing sector.The main challenges reported by the Association were supply and demand led challenges which were caused by lockdowns in other countries and change in consumption patterns respectively. Other concerns highlighted by the Association based on feedback received from its members included; possible cessation of trading, site premises closure, reduced productivity and lost income. Observations made by the Association are consistent with our understanding of the impact Covid-19 is having on businesses. In view of the pending relaxation of lockdowns in different jurisdictions, we expect to see an improved flow in goods across borders in the coming months as countries open up their borders for business and this will be a major relief for entities operating within the sector.

- Power rationing has continued to pose a challenge to the manufacturing sector. It has negatively impacted the financial performance of businesses in the sector with some businesses reporting reduced profits due to higher costs stemming from expenditure on alternative sources of energy, reduced productivity, reduced revenues and damage to equipment from unexpected power outages and surges. Our aforementioned view is consistent with the information released by the ZAM in its press release of September 2019.

- Energy is a key input in any manufacturing process, therefore, steady supply is vital for continued operations and managing of energy related costs. Government should therefore ensure that the energy deficit currently experienced is resolved both in the short and long term to ensure sustained contribution to the national GDP by the manufacturing sector.

- The Hon. Minister announced the attainment of 2020 target and expected completion in 2021 in relation to industrial yards in the various provinces. This will be key to the growth of the sector as well as the economy as a whole. However, we are of the view that the attainment of this growth will only be possible with an uptake of spaces within these industrial yards.

- In our previous year's budget bulletin, we observed the need for Government to consider revisiting fiscal and non fiscal incentives currently in place in instances where these are identified not to produce desired results. In his presentation of the 2021 budget, The Hon. Minister announced a reduction in the investment threshold for a Zambian citizen to qualify for tax incentives under the Zambia Development Agency from US$ 500,000 to US$ 100,000 for those intending to operate in a priority sector, a multi facility economic zone or industrial park. This is a step in the right direction as it attracts and supports citizens participation in business activities. However, Government should further couple these measures with access to affordable financing given the commercial banks' average lending rate of 25.8% as of August 2020, which is considered high in relation to prevailing constrained industry profit margins.



Water and Sanitation Sector

Our View

Safe water, sanitation and hygiene are some of the most basic requirements for human health and should not be a privilege of only those who are rich or live in urban centres.

In line with the vision 2030 agenda of providing water to all (100.0%) and 90.0% access to sanitation, Government through the Ministry of Water Development, Sanitation and Environmental Protection, developed the National Urban Water Supply and Sanitation Programme ("NUWSSP") and the National Rural Water Supply and Sanitation Programme ("NRWSSP"), aimed at improving the provision of water supply and sanitation services by strengthening water supply and sanitation infrastructure development, water quality monitoring as well as water supply and sanitation and hygiene promotion.

According to the National Water Supply and Sanitation Capacity Development Strategy (2015 – 2020) ,the implementation of both programmes faced a number of challenges and it is uncertain if implemented activities are suitable to support the achievement of the objectives of the NRWSSP and NUWSSP. Despite important improvements in the field of water supply, sanitation continues to lag behind. According to the 2018 Zambia Demographic and Health Survey ("ZDHS") 72.0% of households have access to an improved water source whereas only 54.0% of households have access to improved sanitation.

According to the Zambia Sanitation Policy and Planning Framework Case Study,Urbanization, population growth and lack of planning have generated 'sanitation stress' mainly in low income areas. Also,the perpetual problem of inadequate or lack of infrastructural investment affects the capacity to extend coverage beyond the existing network of water supply and sanitation facilities.

The impact of years of limited investment in critical sectors such as water and sanitation is now strongly felt due to the Covid-19 pandemic, making it difficult to adjust to the new reality. The challenge is how to make changes in hygiene behaviour lasting and impactful on disease prevention and quality of life when Water Sanitation and Hygiene ("WASH") services are insufficient.

WaterAid Zambia's assessment of WASH financing found that WASH has not been prioritised. For ten successive years up to 2018, the sector was allocated 0.1–0.3% of GDP and less than 40.0% of what was allocated was actually disbursed.

In many communities, basic services such as toilets and water points are meagre and often shared by several households. Zambia is said to be the third most urbanised country in Southern Africa. Up to 40.0% of urban dwellers reside in informal urban and peri-urban settlements such as Kanyama, Chibolya or Misisi Compounds, with limited access to clean reliable Water Supply and Sanitation facilities.

There is an urgent need to adopt a more aggressive investment mechanism for the water services sector to face up the glaring deficiencies and ensure that infrastructure is in place for the supply of clean water in homes, public institutions and under-served areas.

Health Sector

Our view

The National Health Strategic Plan 2017-2021 set out the following priorities areas in an effort to achieve universal healthcare:

- Infrastructure development;
- Recruitment of frontline workers;
- Strengthening medical supply systems; and
- Strengthening health care financing.

In the area of infrastructure development, Government has maintained its focus on completion of key facilities and upgrading a number of general hospitals. Some of those operationalised in 2020 included:

- Petauke (Kalindawalo) and Chinsali General Hospitals;
- Levy Mwanawasa Medical University;
- An additional 97 health posts have been constructed in 2020 to take the total to 439 of the envisaged 650; and
- 24 mini hospitals.

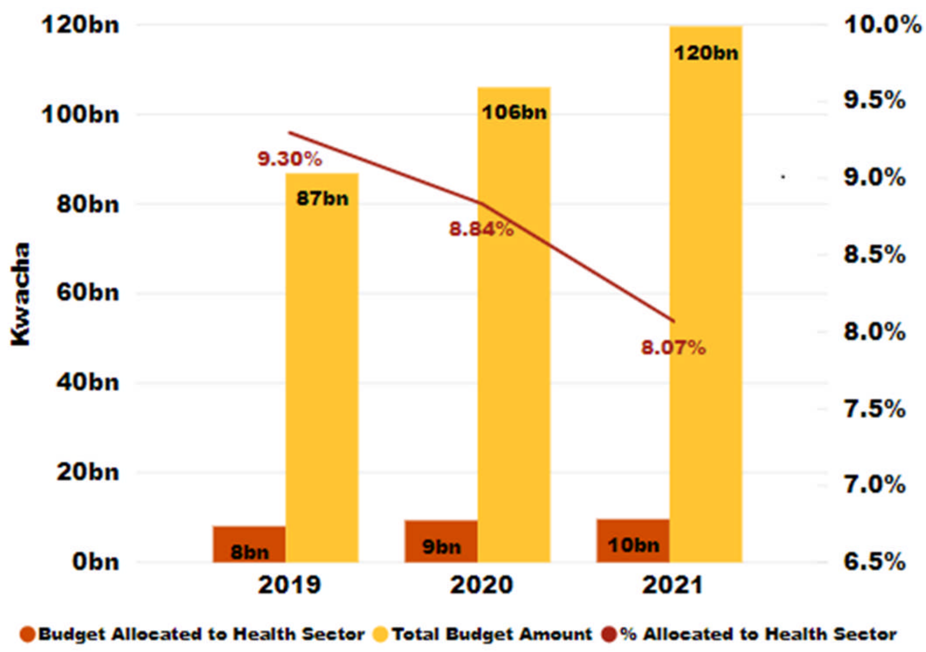
Whether this infrastructure investment is supported by a consequent increase in Healthcare workers remains to be seen. Reducing the ratio of health personnel to the population is a desired outcome of Government and efforts have been made to increase the number of health institutions producing graduates in both public and private institutes. However, there is need to find ways of absorbing these into the Ministry work force especially given the constraint of the public service wage bill that is at 47.1% of domestic revenues per the 2019-2021 Medium Term Expenditure Framework. An actual substantial increase in Healthcare personnel is unlikely.

We note that Government has increased the budgetary allocation towards the provision of drugs and medical supplies by 55.0% compared to 2020. However, this apparent increase will most likely be consumed by foreign exchange losses incurred on the debt owed to foreign suppliers for the provision of drugs and medical supplies in prior years.This drug debt is a significant area of concern and it is welcome to note that the K750 million Covid-19 bond allocated to the Ministry was partly used to settle some of the debt. As the majority of drugs and medical supplies are quoted in US$, the continued depreciation of the Kwacha further reduces the real amount available for procurement.

Government should consider further incentives to encourage the local manufacture of drugs and medical supplies to address this dependence on imports.

The establishment of the National Health Insurance Scheme ("NHIS") is a significant milestone in the development of sustainable Healthcare financing. While contributions are now being received from the formal sector, it remains to be seen how the informal sector will be brought on board.

Overall, Government in the 2021 budget has allocated 8.1% of the total annual budget to the health sector. Government as a signatory to the WHO Abuja Declaration has a target to at least allocate 15.0% of the annual budget to the health sector. The allocation of 8.1% of the annual budget to healthcare falls far short of that target and the three year trend in the table below shows, worryingly, a decline in the allocation. This is a reflection of the impact that the significant debt position has on social priorities.



Education Sector

Our view

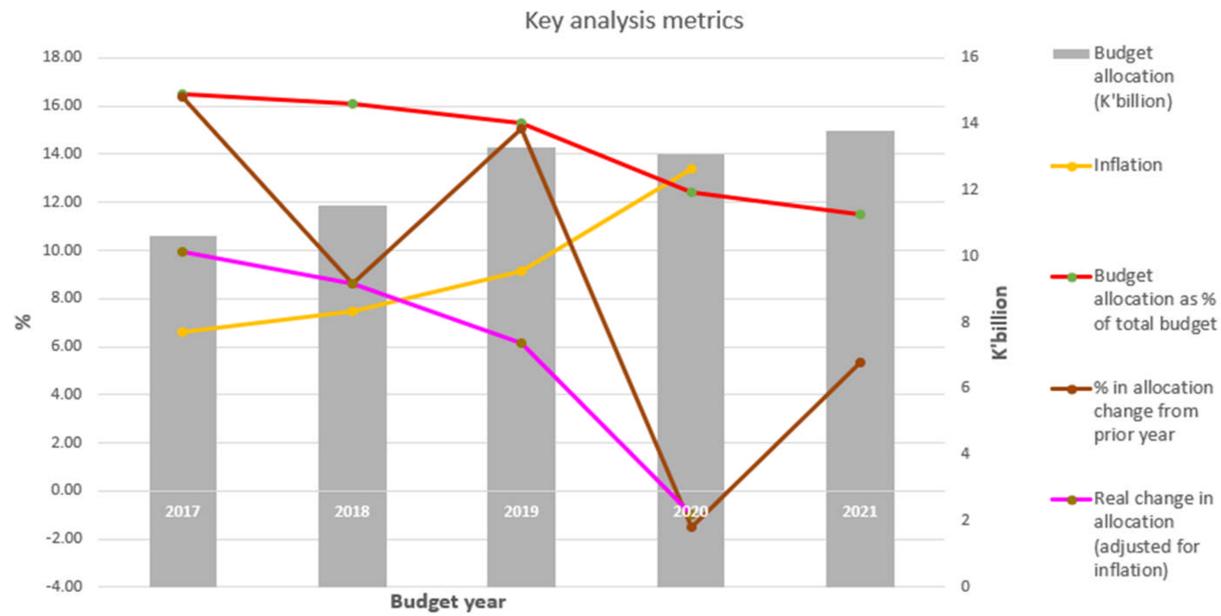
Overall the 2021 budget is a continuation of the implementation of programmes for the budget year 2020. In these tough times with very little fiscal room, it was expected that there would not be significant changes or investment in the education sector in as much as it remains a priority sector.

The budget allocation for the sector as a % of the total budget and the *real* change in the allocation from year to year, has continued to decline since the budget year 2017. As such, significant development of Infrastructure which is the backbone of the sector as well as the stepping stone towards achieving quality education in line with SDG 4 (enshrined in the 7NDP) will remain a challenge. In light of the tight fiscal space, the key option for Government will be to continue to capitalise on the goodwill of International Development Partners ("IDPs") in the sector who have been important partners in supporting infrastructure development.

Government has continued to champion the Technology, Engineering and Mathematics ("STEM") programme as the strategic tool to hatch the next generation of innovators and critical thinkers. This is a step in the right direction and needs intensified support from IDPs.

To get meaningful results from the STEM programme, the Government should align the current numbers of youths under the programme with the student loan needs of the future as part of planning for the sector.

The student loan scheme is a self sustaining and currently the main guaranteed sponsorship line for



students coming from poor families. Therefore, it is imperative that Government ensures that only deserving students access the student loans. One of the key areas to focus on is the harnessing of the IT initiatives (such as mobile money and bespoke online platforms) in the sector so as to ensure that the student loan services are accessed by students from remote areas with minimal financial resources.

Literacy rates rose from 67.5% (2014) to 80.0% (2019). Furthermore, by December 2019, teacher to pupil ratio had a steady increase of 1:45 (2018 - 1:75) at primary school level and 1:35 (2018: 1:68) at secondary school level. This is attributable to the past investments into teacher training and recruitment.

However, due to the tight fiscal space in the 2021 plans, Government should explore possibilities of IDPs to initially fund some teacher salary costs and then gradually handing over the cost to Government as the fiscal space widens, in the near future.

The use of virtual platforms has been encouraged but many pupils and students come from poor families that cannot afford to access these digital platforms, including buying internet bundles for learning. There is need for Government to join forces with IDPs as well as through PPPs in the sector to devise ICT tools to enable schools conduct business normally in the face of the Covid-19 environment and beyond.

Information and Communication Technology (ICT)

Our view

Through the *Smart Zambia project*, progressive efforts have been made by the Government of the Republic of Zambia ("GRZ") to improve communication and efficiencies in public service delivery, including local revenue mobilisation. Below are some of the key projects:

Communications - A US$280 million project through a partnership with Exim Bank of China to construct 1,009 mobile communication towers country wide. To date, 774 towers have been constructed, an increase from the 667 as at 2019.

Efficiencies in public service delivery - 28 public services are now running online on the Government Service Bus ("GSB") and Payment Gateway. 100 additional service relating to land, mining, tolling and tourism are expected to be digitised and added to the GSB and the Payment Gateway by December 2021.

Local resource mobilisation - A number of technology transformation initiatives have been implemented by key GRZ stakeholders to enhance resource mobilisation. Most notable are:

- Zambia Revenue Authority ("ZRA") - launch of an Integrated Tax Administration System - Tax Online as well as Whatsapp Tax pay to enhance efficiencies in electronic service provisioning and further simplify the tax payment process.
- The BoZ - to enhance efficiencies in the secondary market for Government bonds, BoZ launched the E-bond Electronic Trading platform in August 2020.

Realisation of opportunities presented by Covid-19

While the majority of sectors were negatively impacted, the ICT sector is projected to record significant positive growth. The adoption of remote working by both the public and private sectors as a measure to contain the spread of Covid-19 has seen significant increases in the use of data and mobile money services. The waiver of charges on electronic money transfers up to K150 as well as reduction in Real Time Gross Settlement ("RTGS") processing fees will encourage the use of digital financial services.

As remote working becomes ever more prevalent and Government continues to digitise its operations and service delivery, it is important that attention is paid to the risk that cyber security plays. Consumer confidence and trust are key elements to ensuring the continued success of digital financial services. If not managed appropriately, cyber security has the potential to cause significant disruptions in the financial sector and undo the progress achieved. The planned Cyber Security Framework for the financial services sector is important, but more needs to be done around consumer education and strengthening controls at individual market players.

Tourism Sector

Our view

The tourism sector is undoubtedly the big winner in the 2020 National budget. Having experienced the brunt of the Covid-19 pandemic, the Hon. Minister has made concerted efforts to address the situation.

The pandemic peaked in the industry's high season which runs from May to October and resulted in a decrease in tourist arrivals, cancellations of pre booked tour packages and trophy hunting applications, all key foreign exchange earners. Several hotels and lodges faced significant reductions in occupancy rates or shutdown completely between March and May 2020. Community interventions around anti poaching and community assistance have been severely impacted as Government has been unable to fund them.

Based on Fitch Solutions Zambia Tourism report, international tourist arrivals are forecast to decrease to 477,000 for 2020 compared to 1.2 million arrivals recorded in 2019. The sector’s expected contribution to GDP for 2020 is 1.5% from 7.0% in 2019, an indication of the impact of the pandemic.

The Hon. Minister announced a raft of measures aimed at supporting the sector and encouraging investors back. These include a reduction in corporate income tax from 35.0% to 15.0%, suspension of import duty on tourism specific transportation and suspension of identified licences and fees. While the measures announced do not provide much immediate relief, they do however offer significant incentive for investment in the sector which bodes well for the long term. Government’s own efforts to market non traditional tourist attractions such as the Northern circuit and Samfya beach, and the continued investment in infrastructure makes these investments ever more attractive.

Government has made the development of local tourism a top priority and it is clear efforts are being made to realise this. However, worsening macro economic conditions such as double digit inflation, significant depreciation of the Kwacha, and Government's intention to raise Visa fees, may lead to a reduction in disposable income and may act as an obstacle thereby hindering this planned growth.

Transportation Sector

Our view

In the last few years, Government's development strategy has focused on scaling up public investments in infrastructure projects to address the country's transportation challenges. During his 2021 budget speech, The Hon. Minister allocated K6.2 billion (2020 - K10.6 billion) towards road infrastructure projects. This is in line with Government’s policy as set out in the 7th National Development Plan - 7NDP (2017/2021).

The Hon. Minister mentioned in last year’s budget speech that Government's strategy was to rescope existing projects, seek alternative financing to debt contraction and increase use of local contractors in the implementation of these projects. Execution on the rescopng of projects and alternative financing was however challenged by the advent of Covid-19 and the weakening of the kwacha against the US$. This resulted in re-prioritisation of efforts to other sectors of the economy.

Air Transportation

Air transport has been adversely affected by Covid-19. In the first half of the year, domestic and international passenger movements at the four major airports declined by more than half a million. This was on account of the suspension of international and domestic flights by all the airlines except one.

With regard to air transport infrastructure, the upgrading of the Kenneth Kaunda International Airport is 90.0% complete, while the construction of the Copperbelt International Airport, renamed Simon Mwansa Kapwepwe International Airport, is at 76% completion level. The delay in the completion of the Kenneth Kaunda International Airport was exacerbated by the impact of Covid-19. Both airports are now scheduled to be opened in 2021.The opening of the airports is likely to boost the aviation industry, provide job creation and improve other industries such as the tourism industry, which relies heavily on tourists from outside the country.

Road Transport Infrastructure

Government’s 2020 planned key milestone in the road sector has been the completion of the US$298 million Kazungula Bridge linking Zambia and Botswana. The Bridge will facilitate increased regional trade and reduce transit time for freight and passengers.

The performance of the National Road Tolling Programme has been satisfactory. As at end of August 2020, a total of K911.1 million was collected compared to K767.3 million over the same period in 2019. The increase was due to the coming on board of additional Toll Plazas.

The Hon. Minister did not make any announcements regarding progress made on some of the other infrastructure projects namely the Lusaka decongestion project, Lusaka-Ndola dual carriageway and urban road rehabilitation among others.

Realisation of projects

Covid-19 has had devastating effects on the transportation sector, travel restrictions have resulted in the aviation industry recording its worst performance.

Whilst Covid-19 measures are still in-force, short to medium term sector performance is likely to improve as Covid-19 restrictions are eased.

The continued infrastructure and policy reforms will improve road network connectivity and increase efficiency in transportation of goods and services. We expect the funds raised through the National Road Tolling Programme to be used for road maintenance programs in order to ensure the longevity of the investments being made.

With the reduced budget allocation in 2021, re-scoping and re-prioritisation of these projects need to be assessed to ensure these projects and their underlying benefits are realised.

We commend Government for setting up the Public Investment Board, which is meant to oversee and scrutinise all public investment projects before implementation. The Board will ensure that appraised projects are in line with pillar number one of the 7th NDP. All project plans from Government departments and other spending agencies are required to be submitted to the secretary of the Board and should meet the requirements of the public investment management guidelines.

Link from source of data : https://www.mtc.gov.zm/wp-content/uploads/2020/09/SONA-1.pdf
Link from source of data: https://www.mof.gov.zm/?wpfb_dl=278
Link from source of data: https://www.mndp.gov.zm/?wpfb_dl=92

Social Protection Sector

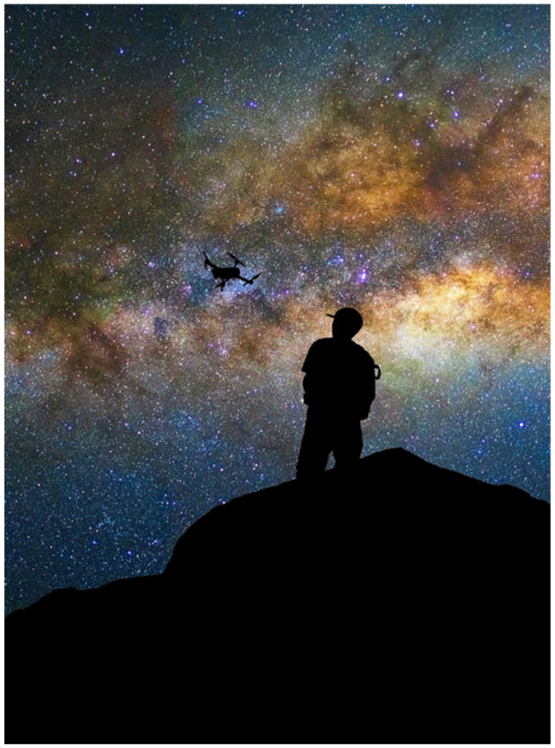
Our View

Government has modelled itself as pro-poor, with its key focus being to fight poverty and vulnerability amongst its citizens. Government's focus is to enhance the welfare and livelihoods of the poor and vulnerable members of the community.

In 2021 budget, Government intends to scale up social protection programmes and climate change interventions. The interventions focus around social cash transfer, food security pack, the emergency cash transfer scheme and supporting the women livelihoods programme.

In this regard, K4.8 billion (2020: K2.6 billion) has been allocated to the Social Protection Sector reflecting an increase of 85.0% from prior year.The biggest allocation is towards the Social Cash transfer programme based on the budget presented by The Hon. Minister.

The Social Cash transfer programme is targeted to reach 700,000 households while 80,000 beneficiaries were to be supported under the food security pack scheme in 2020.The women's empowerment programmes planned to support 75,000 women with training in life and business skills by 2020. The beneficiary numbers are forecasted to increase over the medium term.



Overall, Government promised to bridge the high levels of developmental inequalities between the rural and urban areas. This focused on the completion of ongoing education, health, water and sanitation infrastructure in rural areas in order to increase access to basic social services. Given the huge inequality gap between the rural and urban areas, it will take a couple of years to bridge this gap. This calls for significant investment in time and resources on the part of Government to bridge the gap.

The key challenge going forward is the constrained fiscal space which will ultimately impact on the quantum of resources which will be allocated to the social protection sector. The Covid-19 pandemic has disrupted business activities and supply chains. The consequence has been job losses and the resultant loss of income resulting in the potential increase in the number of people in need of Government support

Our view is that Government's key focus should be on creating a conducive business environment which ultimately will lead to job creation. The ultimate goal is for the citizens to run businesses and have jobs that will provide sustainable incomes, ultimately reducing the number of people receiving support through the social protection programmes.

Social Protection Sector

Our View

In 2019, the Ministry of Community Development and Social Services launched the National Social Protection Policy, Monitoring and Evaluation Framework as a reflection of Government's commitment to the expansion of the Social Protection sector and as an investment in efficient and effective delivery mechanisms aimed at tracking progress on poverty and vulnerability reduction in the country.

The Monitoring and Evaluation Framework focuses on enhancing coordination, efficiency and transparency in the management and disbursement of social protection programmes.

One of the key outputs of the Framework is the development of an electronic based system whose aim is to minimize human interface which in the past has caused challenges around transparency, accountability and the recipients receiving the social protection way after it was due. This will increase transparency and ultimately the confidence of the cooperating partners who are also supporting this important sector.

"My Government will continue implementing social protection programmes in order to contribute to the well-being of all Zambians without leaving anyone behind" (President's speech, 11 September 2020).

"A rapidly growing child population in the region calls for more investment in key social sectors. Investing in children is essential both for the socio-economic development of the region and for its political stability" (UNICEF)

Tax Data Card

5

Tax Data Card

Corporate tax rates	2021	2020
Standard rate	35.0%	35.0%
Banks	35.0%	35.0%
Telecommunication companies		
Income not exceeding K250,000	35.0%	35.0%
Income exceeding K250,000	40.0%	40.0%
Farming/agro-processing or export of non-traditional products from farming/agro-processing	10.0%	10.0%
Income earned by producers of organic and chemical fertilizers	15.0%	15.0%
Export of other non-traditional products*	15.0%	15.0%
Income earned by hotels and lodges accommodation and food services	15.0%	35.0%
All other companies except mining companies	35.0%	35.0%
Companies add value to copper cathode	15.0%	15.0%
New listings on LuSE**	2.0% discount	2.0% discount
New listings on LuSE> 33.0% shares taken up by Zambians**	5.0% discount	5.0% discount
Listings on LuSE>33.0% shares taken up by Zambians	5.0% discount	5.0% discount
Advanced Income Tax (on importation of goods in the absence of a valid tax clearance certificate)	15.0%	15.0%
Turnover tax levied on business with turnover below K800,000 (excludes income earned from consultancy service, property rental, mining and VAT registered businesses)	4.0%	4.0%

Tax on casino, lottery, betting and gaming

	2021	2020
Casino live games	20.0% of gross takings	20.0% of gross takings
Casino machine games	35.0% of gross takings	35.0% of gross takings
Lottery winnings	35.0% of net proceeds	35.0% of net proceeds
Betting	25.0% of gross takings	10.0% of gross takings
Gaming – Slot machines (Bonanza)	K250 per machine per month	K250 per machine per month
Gaming – Gaming machines (Limited pay out)	K500 per machine per month	K500 per machine per month

Capital deductions***	2021	2020
Investment allowance on industrial buildings**** (one off)	10.0%	10.0%
Initial allowance on industrial buildings**** (one off)	10.0%	10.0%
Industrial buildings wear and tear allowance	5.0%	5.0%
Commercial buildings wear and tear allowance	2.0%	2.0%
Implements, machinery and plant		
Used for farming and agro-processing	100.0%	100.0%
Used for mineral processing, manufacturing, tourism, leasing	50.0%	50.0%
Used for electricity generation	50.0%	50.0%
Used in mining companies	20.0%	20.0%
Implements, machinery and plant- Other uses	25.0%	25.0%
Motor vehicles		
Commercial	25.0%	25.0%
Non-commercial	20.0%	20.0%
Farming		
Farm improvement/ Farm works allowance	100.0%	100.0%

Carry forward of trading losses	**No. of years**	**No. of years**
Electricity generation and mining operation	10	10
Other companies	5	5

* 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

Corporate Income Tax rate	2021	2020
Mining Profits		
Profits earned from mining operations (for both base metals and industrial minerals)	30.0%	30.0%
Mineral Processing	35.0%	35.0%
Mineral Royalty Rate		
On ***norm value*** of minerals/precious metals ***under*** **licence:**		
Base metals excluding copper and cobalt	5.0%	5.0%
Precious metals	6.0%	6.0%
Cobalt and Vanadium	8.0%	8.0%
On ***gross value*** of gemstones/energy minerals ***under*** **licence**:		
Energy/Industrial Minerals	5.0%	5.0%
Gemstones	6.0%	6.0%
On ***norm value*** of copper :		
Norm Price of copper< US$4,500/tonne	5.5%	5.5%
Norm Price of copper> US$4,500/tonne<US$6,000/tonne	6.5%	6.5%
Norm price of copper>US$ 6,000/tonne<US$ 7,500/tonne	7.5%	7.5%
Norm price of copper> US$ 7,500/tonne<US$ 9,000/tonne	8.5%	8.5%
Norm price of copper US$ 9,000/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%	0.0%

* The above rates are unchanged from 2020.

Income Tax Individuals

2021 Monthly income bands

	Income from K	Income to K	Tax rate %	Tax on band (maximum) K	Cumulative tax on income (maximum) K
First	0	4,000	0.0	0	
Next	4,001	4,800	25.0	200	200
Next	4,801	6,900	30.0	630	830
Above	6,900		37.5		

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	0	
Next	3,301	4,100.00	25.0	200	200
Next	4,101	6,200.00	30.0	630	830
Above	6,200.00		37.5		

Non-cash benefits

Housing benefit :

a) Where an employer provides free housing to the employee in house that an employer owns, then 30.0% of the employee's annual taxable income is disallowed in the employer's tax computation. In cases where an independent and objective valuation of the rentable value of such housing can be determined, the cost to be disallowed is rentable value of that housing.

b) Where employer leases housing and provides this to one employee, then the rentals are taxed under PAYE for that employee. In cases where the leased housing is occupied by more than one employee, then the housing benefit is taxed in the hands of employer by disallowing the rentals.

Tax Data Card

Non-cash benefits

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

	2021	2020
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.

Withholding Tax (WHT)	Resident	Non Resident
Dividend	15.0%*	20.0%*
Branch profits	n/a	20.0%
Interest	15.0%**	20.0%
Coupon Income (Interest) on Government Bonds	15.0%	15.0%
Management or consultancy fee	15.0%	20.0%
Royalties	15.0%	20.0%
Rent from a source within the Republic	10.0%***	10.0%
Commissions	15.0%	20.0%
Non-resident construction and haulage contractor	n/a	20.0%
Non-resident entertainers/sports persons fees	n/a	20.0%

Note: The above rates remain unchanged from 2020

*0.0% 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, 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	2021	2020
Charged on Insurance Premiums*	3.0%	3.0%

* The 3.0% levy is not applicable on reinsurance services.

VAT

Taxable supplies- rate	
Supply of goods & services in Zambia	16.0%/0.0%
Import of goods & services into Zambia	16.0%/0.0%
Export of goods & services from Zambia	0.0%*

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

Registration	
Threshold	K800,000 p.a.
Payment and return - 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 2020.

Tax Data Card

Property Transfer Tax (PTT)*	2021	2020
Land (including buildings)	5.0%	5.0%
Shares**	5.0%	5.0%
Transfer or sale of mining right	10.0%	10.0%
Intellectual property	5.0%	5.0%
Shares listed on the LuSE	0.0%	0.0%

*PTT is payable by the seller by reference to the realised value of property being transferred. In the case of shares the realised value is greater of open market value and nominal value.

**PTT applies on indirect change in ownership or control of a Zambian entity where the value of transferred shares is more than 10.0% of the value of the Zambia company.

Carbon Tax

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

	2021	2020
Motor cycles	K168 p.a.	K168 p.a.
Engine size < 1,500 cc	K168 p.a.	K168 p.a.
Engine size > 1,500 cc, < 2,000 cc	K336 p.a.	K336 p.a.
Engine size > 2,000 cc, <3,000 cc	K480 p.a.	K480 p.a.
Over 3,000cc	K660 p.a.	K660 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 (2021)	Tax Per Vehicle per annum (2020)
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

Tax Data Card

Deadlines and Penalties

2021 Deadlines	Penalty	Interest
Income Tax - Companies		
Provisional tax Return deadlines: First Provisional Tax Return: 5 March 2021 (manual submission) 31 March 2021* (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 2021, 30 September 2021 & 31 December 2021 (where applicable)		
Payment deadlines: Within 10 days following the end of the quarter	Late payment of tax: 5.0% per month or part month **Underestimation of tax: 25.0%	Late payment: 2.0% + DR N/A
**Note: 2/3 of the total tax liability must be paid by the final quarter or else the 25.0% penalty applies.		
Final tax return & payment		
Deadline: 5 June 2021 (manual submissions) 21 June 2021 (electronic submissions)	Late filing of return: K600 per month or part month	N/A
	Late payment of tax: 5.0% per month or part month	Late payment: 2.0% + DR

Deadlines and Penalties

2021 Deadlines	Penalty	Interest
Income Tax - Individuals		
Final tax return & payment	Late payment of tax: 5.0% per month or part month	Late payment: 2.0% + DR*
Deadline: 5 June 2021 (manual submissions) 21 June 2021 (electronic submissions)	Late filing of return: K300 per month or part month	N/A
Withholding Tax (WHT)		
Filing & payment deadlines: Within 14 days after the end of the month of accrual/payment	Late payment of WHT: 5.0% per month or part month	Late payment: 2.0% + 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: 5.0% per month or part month	Late payment: 2.0% + 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

Tax Data Card

Deadlines and Penalties

2021 Deadlines	Penalty	Interest
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: 2.0% + 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	
Turnover Tax		
Filing & payment deadlines: Within 14 days after the end of the month of accrual/payment	Late payment of tax: 5.0% per month or part month	Late payment: 2.0% + DR
	late filing of return: K75 per month or part month	N/A

Key

*DR = Bank of Zambia discount rate

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

Transfer pricing

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

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