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The road to recovery: Building economic resilience

2022 National Budget Bulletin

October 2021

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Commentary

Commentary

A daunting budget for Zambia's new dawn government

Restructuring Zambia's debt and creating jobs through private sector growth are at the forefront of the New Dawn Government's ambitious plans to revive Zambia's ailing economy.

In the United Party for National Development's (UPND) maiden budget, titled *Growth, Jobs and Taking Development Closer to the People*, Finance and National Planning Minister, Honourable Dr Situmbeko Musokotwane, MP, said Government hoped to have agreed an IMF programme by the end of November, paving the way to renegotiating Zambia's debt. The Hon. Minister said that Government expected to finalise negotiations with creditors by the end of the first quarter of 2022.

Zambia's external debt ballooned under the former Patriotic Front (PF) Government, growing from around US$2 billion in 2011 to US$14.7 billion at the end of September, a situation the Hon. Minister said had contributed significantly to high poverty levels across the country. This debt includes a US$750 million Eurobond that is due for repayment next year. Government also owed K46.9 billion in domestic arrears as at the end of June.

Restructuring Zambia's debt to avoid further default (in November last year, Zambia became the first country to default on debt repayments during Covid-19) and free-up funding for social spending is the first step in the UPND Government's ambitious three-phase economic recovery plan outlined in its party manifesto. The plan is designed to help Zambia meet the Vision 2030 objective to become a prosperous middle-income country by 2030.

Once the economy is stabilised, Government wants to foster steady economic growth during the second phase of the plan, before accelerating that growth in the third, or take off phase. The new Government has identified five countries that it will use to benchmark its economic development: Mauritius, Thailand, Vietnam, Indonesia and Malaysia. Some of these countries were poorer than Zambia at Independence in 1964 but have since reaped the rewards of economic transformation.

The Government's Economic Transformation Programme will focus on job creation – both in the public sector and through private sector development – and value addition in key sectors like mining, agriculture and manufacturing. Fostering entrepreneurship will also play an important role in Zambia's economic transformation, with a focus on growing micro, small and medium-sized enterprises, as will expanding the digital economy.

Commentary

How do the numbers add up?

This year's budget is a huge statement of intent, underlining the aggression with which the UPND plans to use the private sector to drive economic recovery and growth. Concessions are offered in almost every major sector of the economy. Given the state of the economy, it would have been understandable if the Hon. Minister had opted for a more conservative budget.

Some of the main concessions announced include:

- Making the mineral royalty tax deductible again for the mining sector, with a short-term estimated cost to the Treasury of K3.2 billion.
- Reducing the income tax rate for most companies from 35% to 30%. This will result in revenue loss of K0.6 billion.
- Small-scale importers will only pay duty on goods that exceed US$500 in value. Previously, the threshold was US$50.
- Zero-rating various agricultural equipment and waiving the 10% export duty on maize.
- For working individuals, the tax free income band has been adjusted from K4,000 to K4,500. This will result in a maximum additional income tax benefit to individuals of K125 per month. The loss of Government revenue here is projected to be K0.6 billion.

Overall, the total cost of the concessions announced in the 2022 budget is K4.84 billion compared to the K335 million that will be generated by the incremental revenue measures being introduced.

Education is an essential ingredient in the long-term transformation of Zambia. In support of this, 30,000 teachers will be recruited, while secondary school fees for public schools are being abolished. To deliver improved healthcare, 11,200 additional workers will be recruited. These two policies will result in a notable increase to the wage bill.

Meanwhile, decentralisation will play an important role in taking development closer to the people, in supporting economic activity, and enhancing the transparency and accountability of resource management.

How will the lost revenue and incremental costs be funded?

1. **Rapid recovery then growth of the private sector**

   The private sector has been given significant space to thrive in this year's budget. Tax concessions coupled with the introduction of some trade barriers should give various sectors the impetus to grow and contribute significantly.

2. **Cost efficiency and reduced waste**

   The Hon. Minister indicated various initiatives intended to create a more cost effective Government. These include more rigorous public procurement and curtailing corruption.

3. **Shift from direct to indirect taxes**

   Several direct taxes, such as income taxes for individuals and corporations, have been reduced. At the same time, indirect taxes, such as VAT, have been introduced on certain services. Providing additional cashflow to individuals and companies is intended to stimulate greater spending, which should in turn result in the collection of more consumption taxes like VAT. The efficiency of indirect tax collection mechanisms will play a big part in realising this plan.

Commentary

How do the numbers add up?

How will the lost revenue and incremental costs be funded?

4. Borrowing

Despite the Government's commitment to making debt sustainable, it has indicated that some borrowing will be required to finance the budget. The Hon. Minister has however outlined key principles to guide any new debt contraction.

5. Use of the Special Drawing Rights

When discussing the recruitment of teachers and medical staff, the Hon. Minister made specific reference to utilising part of the US$1.33 billion IMF Special Drawing Rights that was received in 2021. While this may be possible, it is questionable whether it is sustainable to use resources that are considered a one-off windfall to support fixed recurring expenditure that will persist even after the amount received has been exhausted.

We perceive this as the biggest risk in as far as funding the budget is concerned. Suffice to say, this risk brings into sharp focus the need to ensure that the economy starts to grow aggressively if Government is to cover the incremental costs.

Commentary

The big issues

Tackling the debt crisis

Zambia's total debt as at September 2021 stood at US$26.96 billion, up 32% from December 2020. These levels are unsustainable and have contributed to an escalation in the cost of living and exacerbated poverty across the country.

With a large portion of the national budget being spent on servicing debt, there is little scope for spending on infrastructure and social development. In 2022, Government will spend K51.3 billion on servicing external debt and K27.3 billion on domestic debt, or K78.7 billion altogether. This represents 45.5% of next year's total budget.

The Hon. Minister said the imminent IMF deal would allow Government to renegotiate its repayment terms with creditors under the Common Framework for debt treatment beyond the Debt Service Suspension Initiative, freeing up resources for development. Government hopes to have reached an agreement with creditors by the end of March next year.

The Hon. Minister said Government would not contract further external non-concessional loans except for refinancing existing debt, while domestic borrowing will be restricted to scheduled auctions in preference to private placements. Concessional debt with a longer repayment period and lower interest will also be explored.

He also said that the current Loans and Guarantees Act would be repealed and replaced with a new Loans, Grants and Guarantees (Authorisation) Bill. The new bill aims to enhance transparency in public debt management, including loan contraction.

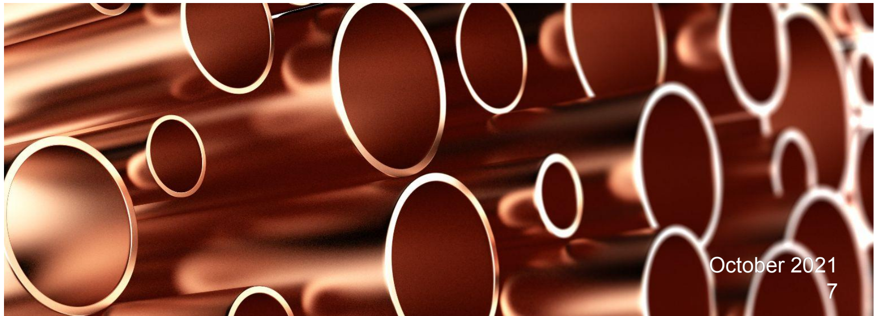
The urgency and transparency with which the Hon. Minister is approaching the debt situation is commendable. It is our hope that this will be positively received by the IMF and Zambia's creditors and allow the country to reprofile its debt.

Mining as an engine for growth

Increasing copper production is at the heart of the UPND's plans to transform the economy. Government hopes Zambia can grow its copper output from the current 800,000 tonnes per annum to three million tonnes in the next 10 years, on the basis that production growth will impact the whole economic system positively. Copper prices are currently close to historic highs at US$9,850 per tonne.

To encourage greater production, Government has introduced various tax incentives for the mining sector in this year's budget. Most notably, it plans to reintroduce the deductibility of mineral royalty for corporate income tax assessment purposes. This measure alone is estimated to result in an immediate loss of K3.2 billion to the Treasury, but is a clear signal of the Government's commitment to supporting growth in the sector.

The measures announced by the Hon. Minister are a strong first step in addressing the long-standing concerns of the industry and the issues that have stifled investment and growth. This should result in increased investment in the sector. However, we are sceptical about the ability to achieve the production targets in the timelines set due to the lack of any ongoing large-scale developments in the sector.



Commentary

The big issues

Economic transformation through value addition

Government has introduced a number of measures in this year's budget designed to encourage private sector investment in key sectors of the economy on the basis that this will fuel economic growth and create much-needed jobs.

Resurrecting the Multi-Facility Economic Zones ("MFEZs"), first established by the Movement for Multi-Party Democracy, is an important part of this plan to encourage investment and value addition. The Hon. Minister said in his budget speech that he hoped to attract investment into the MFEZs by offering a range of tax incentives to encourage value addition, particularly in sectors like manufacturing and agro-processing.

Agriculture in particular is set to benefit from measures designed to encourage investment in the sector. These include the removal of the 10% export duty on maize from 1 November 2021 and the removal of VAT on various agricultural equipment. Government also proposes to create new farming blocks to support the development of large-scale agricultural estates, marking a shift from previous Governments' focus on small-scale farmers.

The Hon. Minister said Government will also do away with the current Farmer Input Support Programme (FISP) and implement a more targeted and cost effective new agriculture support programme for the 2022-2023 farming season. Details of the new programme are yet to be announced.

Finally, a reduction in corporate income tax from 35% to 30% from 2022 for most companies also aims to encourage private sector investment across the board.

The Hon. Minister's announcements around manufacturing and agriculture are consistent with the overall political direction of attracting large-scale investment to drive economic growth. To accelerate the development of MFEZs, the Hon. Minister has tied the start of the tax incentive period to the beginning of construction works. This will encourage investors to complete their investment projects in the shortest time possible to enjoy a longer tax incentive period.

Decentralisation

Redirecting spending and service delivery away from central Government to the constituencies is an important part of the UPND's plans to empower rural areas and encourage entrepreneurship. It hopes that decentralisation will enable Zambia's mostly young citizens to get involved in the decision-making process, decide where spending is most needed in their area, and to create local businesses to cater to this.

To support this, the Hon. Minister has announced a large increase in the Constituency Development Fund (CDF) allocation from K1.6 million per constituency to K25.7 million per constituency from next year. He also plans to move some functions previously managed by central Government through the district offices to the local authorities working with local communities through the CDF.

This means the CDF now has more to do, such as building primary schools and teacher accommodation, health facilities, small infrastructure, local courts, community boreholes, dip tanks and so on. Empowerment schemes previously funded through the relevant ministries will also now come under the CDF, as well as secondary school bursaries and skills development.

Implementation will start in 33 Local Authorities in 2022.

While the move to decentralisation will undoubtedly spur activity at the local government level, questions remain around the availability of processes, structures and resources at constituency level to ensure accountability and prudent use.

Commentary

The big issues

Enabling environment and catalysts

Private-public partnerships

Zambia's debt obligations mean Government has little financial capacity at present to spend on infrastructure development.

In order to plug this gap, Government is looking to "aggressively pursue" private-public partnerships (PPPs) through a new Act that it hopes will support the building and maintenance of roads and the rehabilitation of Zambia's railway system.

The Hon. Minister indicated that the private sector will be encouraged to participate actively in the commercialisation of infrastructure. He also said that the Public Private Partnership Act No 14 of 2009 will be repealed. Apart from this, there is need for more information on how the PPPs will now operate.

Zambia's current debt situation has been mainly attributed to the vast infrastructure expansion programme undertaken by the previous Government. It is therefore imperative that steps are taken to ensure that existing and planned infrastructure will contribute to economic activity and, consequently, debt service. As part of the process, it is important to undertake an economic viability assessment of existing and prospective projects to avoid repeating the mistakes of the past. Lessons must be learnt and applied in the future.

Technology

The UPND Government sees technology as a key enabler of economic transformation. The Hon. Minister has announced investment in communication towers that will help promote access to digital services, especially in rural areas, which are currently underserved.

In addition, the Government should focus on harmonising policies across the sector and digitising Government business operations to improve citizen experience.

The green economy

Environmental sustainability is an important part of the UPND Government's development plans. In the budget, the Hon. Minister said Government wants to promote innovative financing for climate change interventions through mechanisms such as Green Bonds, carbon trading and the establishment of a National Climate Change Fund.

Commentary

The big issues

Covid-19: the elephant in the room

The Covid-19 pandemic has been the most significant challenge faced by countries in the recent past. The economic and social disruption witnessed during the pandemic has been unprecedented. Although Zambia did not undertake a hard lockdown at any stage, businesses and individuals were adversely affected in different ways.

At present, with positivity and mortality rates at fairly low levels, the pandemic appears to be under control. That said, Zambia continues to struggle with achieving targeted vaccination rates and coverage, the impact of which remains to be seen.

The budgetary allocation to the health sector of K13.9 billion has increased by 44%. K3.4 billion is for the procurement of medical supplies and Covid-19 vaccines.

We urge the Government to remain resolute in the fight against the pandemic as any further waves will result in significant disruption to economic recovery.

Conclusion

At first glance, the new Government appears to have presented a very ambitious budget – perhaps to the point of it being unrealistic given the country's current economic circumstances.

However, detailed consideration of the underlying intent and the supporting assumptions lead us to believe that it is achievable, albeit with some challenges. The revenue target of K101 billion compared to the 2021 projected outturn of K97 billion does seem realistic, although the stronger currency means that mining revenue may be lower than in 2021.

The measures announced in the budget are also consistent with the various policy pronouncements that the UPND has made both before and after taking office. We believe there are plenty of entrepreneurial opportunities for individuals and businesses alike if the budget is implemented as intended.

The Hon. Minister has extended himself more than many anticipated and we hope that this budget will kick-start Zambia's economic recovery. We reiterate that keeping the Covid-19 pandemic under control is critical to ensuring that his plans are not derailed.

Now it is all about implementation, supported by good governance, transparency and accountability.

Let the work begin!

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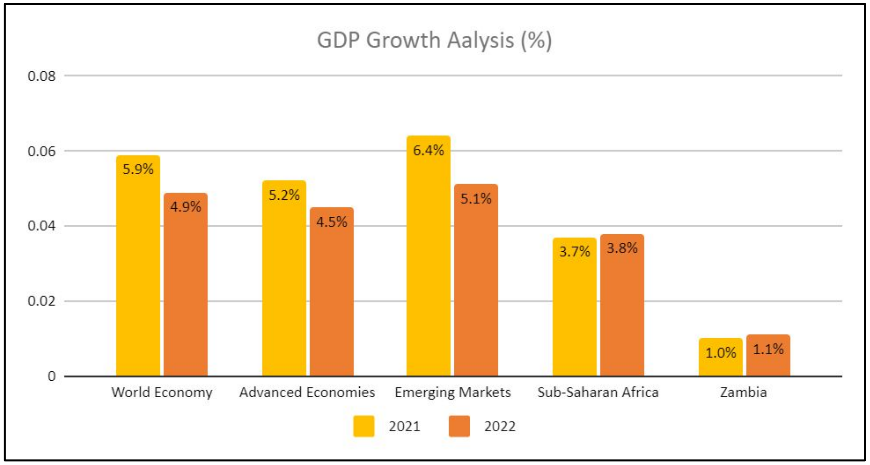
The economy

Global economy

In October 2021, the IMF marginally revised its global growth projection downwards from 6% to 5.9% for 2021 while keeping its 2022 projection unchanged at 4.9%. This was mainly due to worsening Covid-19 pandemic dynamics in low-income developing countries.

As most advanced economies reopen following relative successful vaccination campaigns against Covid-19, it is expected that growth will be supported by the release of built-up demand and rebound in commodity prices.

However, further downside risks remain especially from supply disruptions as seen from the recent gas crisis in Europe, climate change impacts and divergence in economic prospects across most countries. These disruptions pose a significant policy challenge for most countries going forward.



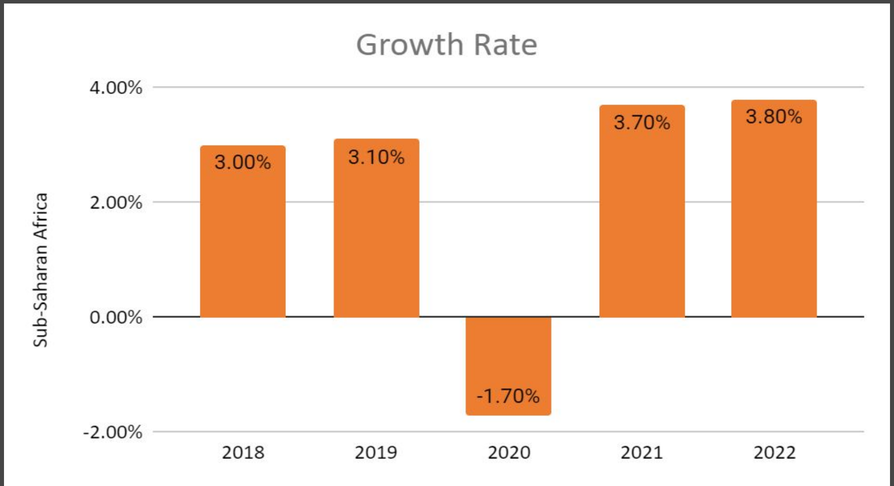
Source: IMF World Economic Outlook October 2021

Sub Saharan Africa economy

The region is set to grow in 2021 and 2022 due to improvements in global trade and commodity prices. Favourable harvests are also expected to improve agricultural production and income for the region.

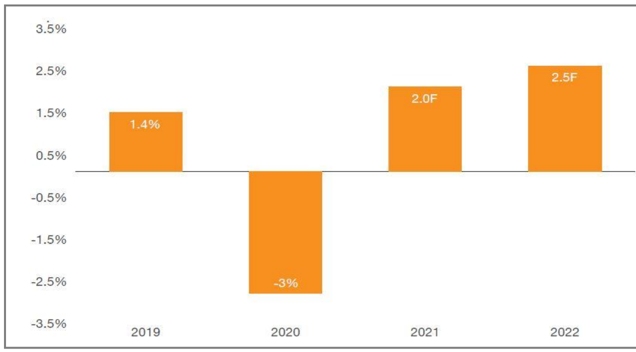
However, the Covid-19 pandemic continues to have an impact on the supply chain in the region due to export restrictions by most developed countries. In addition, the slow pace of vaccinations has meant recovery in the region will be the slowest in the world in 2022, therefore, affecting both fiscal and monetary policies.

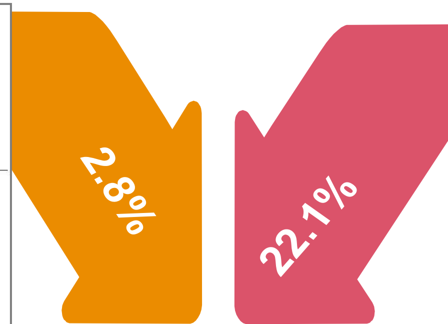
Meeting development spending needs, containing public debt and mobilising tax revenues will remain a challenge for most governments.



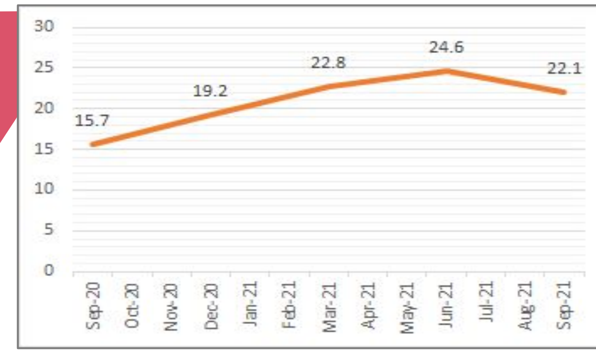
Zambian economy at a glance

GDP actual and forecast



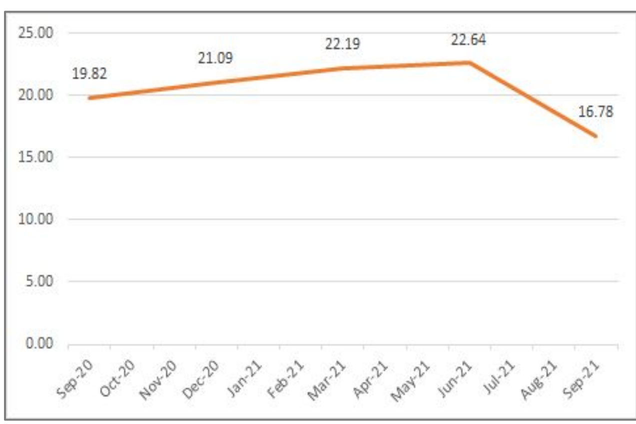


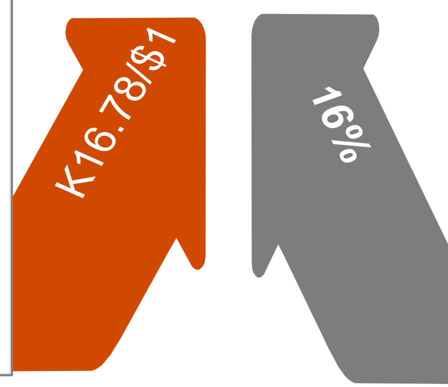
Inflation



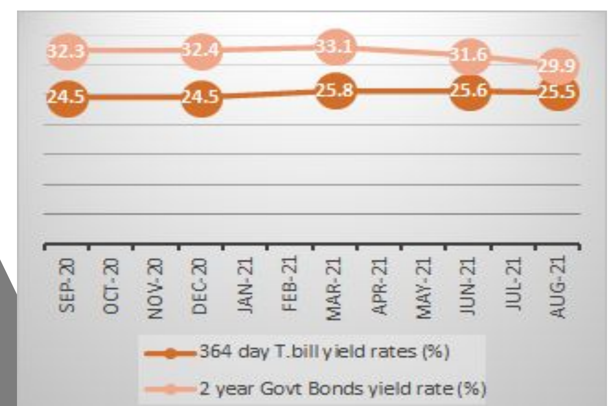
Zambian economy

Exchange rate against US$





Yield curve



Source: Bank of Zambia

State of the Zambian economy

The economy has been experiencing weakening economic growth over the last few years due to unsustainable debt, falling copper prices, as well as declining hydro-electric power generation and agricultural output from insufficient rains. The public health emergency and economic crisis triggered by the Covid-19 exacerbated pre-existing challenges.

The achilles heel…

Debt burden

As at the end of June 2021, official figures from the Ministry of Finance show that the debt burden stood at US$26.96 billion up 32% at the end of December 2020. External debt amounted to US$14.71 billion as at end September 2021.

The Hon. Minister in his address admitted that the current debt levels are unsustainable and without action, will choke the nation to a standstill.

A support programme from the IMF and the signing of the Debt Service Suspension Initiative (DSSI) with the Paris Club and G20 creditor countries and Intesa Sanpaolo will help alleviate the pressure.

As at June 2021, domestic debt stood at K144.9 billion up from K97.2 billion as at December 2020. The increase was mainly due to Government borrowing for the purpose of acquiring farmer inputs for the 2021/2022 farming season.

Domestic arrears have continued to increase with the most worrisome being the US$478 million in fuel arrears. Other domestic arrears stood at K46.9 billion (December 2020: K41.0 billion). The bulk of these arrears relate to outstanding payments to road contractors, suppliers of goods and services, VAT refunds and personal related emoluments.

Covid-19

While outlook is generally positive with regards to Covid-19, there are uncertainties around the emergence of more contagious variants. With only 3% of the population vaccinated, the onset of a fourth wave, which would necessitate reinstatement of strict prevention measures, could severely constrain economic activity frustrate growth.

Persistent vulnerabilities

Given its current structure, the economy remains constrained by persistent vulnerability to factors over which the country exercises little control, particularly:

- changes in copper prices: with copper exports contributing over 80% of foreign exchange earnings, the overall economic growth remains highly sensitive to performance of the mining sector.
- volatile rainfall patterns - which significantly impact electricity generation and agricultural output. Reduced agricultural output, particularly maize, triggers upward inflationary pressures which in turn reduce aggregate demand and constrain economic growth. Additionally, poor rains cause declines in, and instability of electricity generation causing disruptions to economic activity and increase the cost of production.

Reviving the economy

The blueprint

In its manifesto, the UPND set-out to revive the economy through a three-phase plan: recovery and stabilisation; steady growth; and take-off.

The 2022 budget address lays out the blueprint for the realising phase I of this plan. According to the Minister, the measures to restore growth and macroeconomic stability in the short to medium term are aimed at achieving the following specific macroeconomic objectives:

- A year-on-year GDP growth rate higher than the population growth rate (currently 2.8%) to ensure that the demands of the growing population are met.
- Reduced inflation to single digits within the target band of 6-8% by mid 2023
- Limit international reserves to at least 3 months import cover
- Increase domestic revenue to not less than 21% of GDP
- Reduce the fiscal deficit to no more than 6.7% of GDP
- Limit domestic borrowing to no more than 5.2%

The strategy

Debt management

Restructuring external debt obligation through a combination of agreeing a funded IMF programme by the end of November 2021 and concluding debt negotiations with creditors by March 2022 is expected to provide relief to a severely strained fiscus and provide much-needed capacity for Government to spend on investment and social development.

In addition, non-concessional debt will be avoided except when refinancing existing debt whilst domestic borrowing will be restricted to the scheduled auctions in preference to private placements.

Mining as the engine for growth

The Government is banking on the mining sector to provide the platform for growth in the short to medium term. On the back of favourable copper prices, the Government intends to create a conducive environment that will eventually stimulate growth of copper output from the current 800,000 tonnes per annum to three million tonnes by 2031 Significantly improved fortunes of the mining sector are expected to stimulate growth of the wider economy.

Government spending

Job creation through the recruitment of 30,000 teachers and 11,200 heath care personnel.

Economic diversification and the private sector

Introduction of measures to encourage private sector investment in key sectors of the economy including agriculture, tourism and manufacturing.

Decentralisation

Stimulate economic activity by empowering rural areas and encouraging entrepreneurship by increasing Constituent Development Fund from K 1.6 million per constituency to K 25 million.

Covid-19

Accelerate the pace and scale of vaccination programmes through the allocation of K 3.4 billion to the health sector for the procurement of medical supplies, of which K 0.7 billion will be spent the vaccines.

3

Taxes

Direct Taxes – Pay As You Earn

Changes in the tax exempt band

With a view to increase the disposable income of individual taxpayers, the Hon. Minister proposes to increase the annual income tax exemption threshold for Pay-As-You-Earn ("PAYE") from K48,000 to K54,000. This proposal will result in a maximum annual incremental take home pay for individuals by K1,500 (K125 per month).

In totality, the Hon. Minister expects this to put an additional K600 million into the hands of individuals in 2022.

Increased disposable income for individual taxpayers

Income	2022 Tax Rate	Income	2021 Tax rate
First K54,000	0.00%	First K48,000	0.00%
From K54,001 to K57,600	25.0%	From K48,001 to K57,600	25.0%
From K57,601 to K82,800	30.0%	From K57,601 to K82,800	30.0%
From K82,801	37.5%	From K82,801	37.5%

Direct Taxes – Corporate Income Tax

Reduced Rates and Suspension of Corporate Income Tax on profits from manufacturing of ceramic products

Standard Corporate Income Tax Rate

The Hon. Minster proposes to reduce the standard corporate income tax rate from 35% to 30%.

Income earned by Telecommunication companies of less than K250,000 will benefit from the reduced corporate income tax rate of 30%, down from 35%. However, the Hon. Minister announced that the top marginal tax rate of 40% would remain in place for income exceeding K250,000.

The Hon. Minister added that the proposed reduction in the standard tax rate was intended to help businesses to retain some capital for future investments while also attracting foreign direct investment.

Manufacture of Ceramic Products

The Hon. Minster proposes to suspend Corporate Income Tax for persons carrying on the business of manufacturing of ceramic products for the 2022 and 2023 charge years.

The measure provides an opportunity for new entrants into the sector.

Hotels and Lodges

The Hon. Minister proposes to extend the reduced 15% corporate income tax rate on income earned by hotels and lodges on accommodation and food services to 31 December 2022. This represents an extension of the existing measure which was due to lapse on 31 December 2021.

The measure is a welcome move considering the continued negative effects of Covid-19 on the tourism industry

Direct Taxes – Corporate Income Tax

Reformation of the rental income tax regime

Reform of the Rental Income Tax Regime

The Hon. Minister proposes to reform the rental income tax regime by levying Turnover Tax at 4% for the income below K800,000 per annum. For rental income above K800,000, the income tax regime for corporates and individuals will apply accordingly.

Currently, tenants are required to withhold a 10% tax on rental income paid for leasing/ renting out commercial, industrial, and residential property located in Zambia. The tax withheld is the property owner's final tax. The property owner may still be obliged to file an annual income tax return that includes all sources of income, including rental income.

The proposed rental tax regime change will affect taxpayers differently depending on whether their annual rental income is less than or more than K800,000, and whether they are individuals or corporations:

Rental income below K800,000

For individuals or corporates with rental income of below K800,000, turnover tax of 4% will be charged on the turnover from rental income. The turnover tax will be the property owners final tax.

Rental income above K800,000

Because no amendment has been proposed to permit tenants to make gross rental payments to property owners, we assume that withholding tax will no longer be a final tax but would instead be claimed as a credit when property owners compute their final annual income tax on their property rental businesses.

However, clarity will be required in this regard.

In general, this proposed change would have the effect of shifting the burden of compliance to the property owner. As such, it may be advisable to abolish the tenant withholding obligation in order to alleviate the property owner's compliance burden.

Direct Taxes – Corporate Income Tax

Increase in bands for presumptive taxes

Presumptive Taxes

The Hon. Minster proposes to revise the bands for presumptive taxes which had not been reviewed since 2018. The table below details the proposed increases in the tax per annum per vehicle seating capacity. The stated reason for the increase is to adjust the specific rates for inflation overtime.

Vehicle Sitting Capacity	Current Tax Per Annum (K)	Proposed Tax per Annum (K)
64 seater and above	10,800	12,960
50-63 seater	9,000	10,800
36-49 seater	7,200	8,640
22-35 seater	5,400	6,480
18-21 seater	3,600	4,320
12-17 seater	1,800	2,160
Below 12 seater	900	1,080

Direct Taxes – Withholding Tax

Extension of exemption from tax on interest earned on accounts held by individuals

The Hon. Minister proposes to extend the tax exemption relating to payments of interest arising on bank accounts held by individuals to all interest earning accounts held by individuals with institutions registered under the Banking and Financial Services Act. Currently, the exemption only applies to savings and deposit accounts.

This measure seeks to encourage a culture of saving as well as to promote financial inclusion.

Introduction of withholding tax on reinsurance from providers not licensed in Zambia

The Hon. Minster proposes to introduce withholding tax at a rate of 20% on payments to reinsurers who are not licensed in Zambia.

This proposal aims to stimulate domestic reinsurance growth and to broaden the tax base by taxing the income of non-Zambian licensed reinsurers.

Changes to the Betting, Casino, Lottery and Gaming Activities tax regime

The Hon. Minster proposes to make the following changes in respect of betting, casino, lottery and gaming activities:

- Introduce a mandatory requirement for tickets to display the withholding tax payable on potential winnings. This will apply equally to online and "bricks and mortar" establishments. To enforce this, it is proposed that this will be a condition for holding a license;
- Introduce definitions for "winnings" and "gross takings" in the Income Tax Act. This measure seeks to provide clarity to taxpayers on the types of payouts that are subject to tax.

Amendment of definition of commodity royalty

The Hon. Minster proposes to amend the definition of "commodity royalty" to include payments made to persons resident in Zambia.

This proposed change essentially extends the scope of withholding tax in respect of payments by residents under royalty financing arrangements. Currently, withholding tax only applies where such payments are made to non-residents.

It is further proposed that the definition of commodity royalties be amended to provide more clarity to taxpayers in respect of royalty financing.

The Income Tax Act currently defines commodity royalty as:

"an amount paid by a person resident in the Republic to a non-resident that is computed by reference to the production, profit, or to the value of production from a mineral deposit or other natural resource in the Republic payable under royalty financing but excludes the repayment of the purchase price for the commodity royalty".

Direct Taxes - Housekeeping measures

Housekeeping measures

Renewal of approvals for Public Benefit Organisations ("PBOs")

The Hon. Minister proposes to require PBOs to renew their approvals for tax relief under the Income Tax Act ("the ITA") every three years.

This measure is intended to align with the three year renewal period under the Customs and Excise Act ("C&E Act"). Currently, there is no explicit requirement for renewal provided for under the ITA. The ITA does, however, give the Hon. Minister the power to withdraw an approval for a PBO under certain specific circumstances including instances where the PBO is not exclusively providing a public benefit activity.

PBOs are entitled to various tax exemptions.

Clarification on Public Benefit Activities relating to provision of education programmes

The Hon. Minister proposes to amend the ITA by clarifying that public universities are not excluded from being approved as PBOs.

With this, public universities that meet other prescribed conditions, may be able to seek approval as a PBO and have access to the attendant tax exemptions.

Amendment of the Second Schedule

The Minister proposes to amend the Second Schedule of the Income Tax Act by removing the reference made to an "approved fund".

This measure is meant to align the respective provision in the Income Tax Act to the Republican Constitution

Direct Taxes – Property Transfer Tax

Housekeeping measures

Clarification in respect of exemption from PTT on indirect transfer

The Hon. Minister proposes to amend provision of the PTT Act that provides relief on the indirect transfer of shares. At present, a transfer of shares is not liable to tax if the total value of the transferred shares over a period of three years represents less than 10% of the total value of the shares of the Zambian company.

The Hon. Minister now intends to amend the current wording of the PTT Act to include a reference to three consecutive years where it currently refers to three years.

Proxies filing returns where transferor cannot be found

The Hon. Minister proposed an amendment to the PTT Act to allow a person other than the transferor of the property to file a provisional tax return on behalf of the transferor where that person has been allowed to do so by a court order or has been appointed as a proxy for the registrar of court who has been authorized to render the provisional return. This will only apply under the following conditions:

- The transferor is deceased; or
- The transferor is absent from Zambia; or
- The transferor cannot be located despite all reasonable effort to do so.

The intention of the measure is to allow for the processing of PTT returns by a proxy where the transferor is not available.

Requirement for a Public Benefit Organisation to be approved for PTT exemption to apply

The Hon. Minister proposed an amendment the PTT Act to include the word “approved” before Public Benefit Organisation.

The measure seeks to clarify that a Public Benefit Organisation may qualify for PTT exemption if the organisation is approved pursuant to the Income Tax Act.

Direct Taxes – Multi Facility Economic Zones

Reintroduction of tax incentives for companies operating Multi Facility Economic Zone or Industrial Parks

Driving the industrialization agenda

The Hon. Minister noted that a decade after the Multi Facility Economic Zone (MFEZ) framework was established, investment in existing economic zones remained low. To drive the industrialization agenda, the Hon. Minister proposes a more targeted tax incentive regime for investments in MFEZs and Industrial Parks. The proposal seeks to revamp and remodel the economic zones by incentivising investors to accelerate industrial development inside these parks.

The table below summarises the proposed targeted incentives incentives regime.

2022 Budget incentive
Dividend Withholding Tax Relief: 0% for a period of 10 years starting from the year of commencement of operations on profits derived **from exports**.
Corporate Income Tax for companies operating in a MFEZ or Industrial Park will be charged at the following rates on **profits derived from exports**: • 0% for a period of 10 years from first year of commencement of works • 50% of profits taxed from 11th to 15th year • 75% of profits taxed from 14th to 15th year

Given the fact that the incentives will be targeted at profits earned on exports, it will be necessary to separate profits earned from domestic and export sales in order to ensure that the appropriate tax rate is applied to each source of income and dividend declarations.

Additionally, the Hon. Minister proposes lowering the investment threshold for Zambian citizens to qualify for incentives under the Zambia Development Agency Act from US$500,000 to US$50,000. The reduced investment threshold of $50,000 will encourage Zambian citizens to participate in the economy's industrialisation and benefit from existing incentives.

Transfer Pricing

Updates to Transfer Pricing Regulations

For the 2022 charge year, the Hon. Minister intends to amend the Transfer Pricing Regulations ("TP Regulations") to clarify or resolve ambiguities in the current regulations.

Update to the Country-by-Country Requirements

The key amendments relate to Zambia's Country-by-Country Reporting ("CbCR") regulations, which came into effect from the 2021 charge year.

These regulations enable the automatic exchange of information between tax authorities in jurisdictions where a multinational enterprise ("MNE") operates.

CbCR requirements are part of a wider international effort spearheaded by the OECD's Base Erosion and Profit Shifting ("BEPS") initiative.

The CbCR enables ZRA to understand how economic value is created and how profits are allocated and taxed across jurisdictions.

It is expected that ZRA, with access to this information, will be better equipped to examine any tax avoidance schemes used by certain MNEs.

Beginning with the 2021 charging year, qualifying enterprises must submit CbCRs to the ZRA within 12 months of the end of the MNE Group's reporting accounting year.

The Hon. Minister has proposed changes to the current CbCR regulations, including the following:

- Additional schedules requiring taxpayers to supply an aggregated list of MNE constituent entities should be included in the CbCR. Also, the schedules should include information about the activities of each constituent entity.
- Clarification of the procedure for filing a CbCR with the ZRA, as well as the conditions under which a local entity is not required to do so; and
- The threshold for MNEs to file CbCR has been clarified to be K4,795 billion. This change removes the reference to the Euro (i.e. Euro 750 million).

Further, the TP Regulations have been updated to remove grammatical errors and to properly reference the sections of the Income Tax Act dealing with transfer pricing.

Proposed changes in the mining sector

Make Mineral Royalty deductible for Income Tax Purposes

The Hon. Minister proposed to amend the Income Tax Act to re-introduce the deductibility of Mineral Royalty Tax (“MRT”) payable under the Minerals and Mines Development Act of 2015 for income tax purposes.

This measure seeks to align the income tax treatment of MRT with international best practice by addressing a key concern raised by stakeholders: the double taxation caused by non-deductible MRT.

Along with addressing double taxation, the measure would lower mining companies' effective tax rate, establishing Zambia as a more attractive destination for mining investment.

Increase the carry forward of unutilised disallowed interest expense from 5 years to 10 years

The Hon. Minister proposed to increase the carry forward period of unutilised disallowed interest expenditure by mining companies to 10 years from 5 years. The deductibility of interest expenditure is restricted to 30% of profit before tax (specifically the tax earnings before interest, tax, depreciation and amortisation).

Currently, the interest that is non-deductible due to the above restriction may only be carried forward for a maximum of five years across all sectors, although some sectors such as mining and electricity generation have longer carry forward periods for tax losses.

A longer carry forward period for unutilised disallowed interest expenditure is likely to encourage mining companies to seek the necessary debt capital to expand production capacity.

Broaden the scope of Property Transfer Tax to include transfer of mineral processing and other related licenses.

The Hon. Minister proposed amending the Property Transfer Tax ("PTT") Act to impose PTT at a rate of 10% on transfers of mineral processing licenses and other mining-related licenses.

While the PTT Act currently imposes tax on the transfer of mining rights and/or interests in mining rights, it does not include in the scope of tax other mining licenses such as mineral processing licenses and other mining-related licenses.

This measure seeks to broaden the tax base by subjecting mining-related license transfers to PTT.

Mineral Royalty determination in the medium term

The Hon. Minister remarked that the Government would amend the law to require mining royalty tax determination to include both incremental and aggregate norm values.

Currently, if a pricing threshold is exceeded, the MRT rate is computed incrementally using a stepped scale. The current stepped structure of the MRT has been cited as one of the aspects of the mining regime that has eroded Zambia's attractiveness as a mining investment destination while also reducing industry production.

Reforming the MRT structure is likely to result in a more competitive, predictable, and stable mining tax regime.

Indirect Taxes

Value Added Tax (VAT)

Zero rating of selected agricultural equipment

The Hon. Minister proposes to zero rate the following agricultural equipment and accessories: manure spreaders; balers; combine harvesters; commercial sprinkler irrigation systems; animal feed grinder mixers; pelleting machines; sprayers; trailers of specific HS codes; and dryers for agricultural products of a specific HS code. This measure aims to promote agricultural productivity through mechanisation and enhance food security.

Zero rating of solar charge units and solar street lights

With a recent focus on promoting the use of alternative renewable energy sources, the Hon. Minister proposes to zero rate solar street lights and solar control units. This measure will help local authorities save money on electric bills while enhancing road safety.

Standard rating of property and non-life insurance services

The Hon.Minister proposes to standard rate property insurance, and non-life insurance premiums for VAT. This measure is aimed at broadening the taxable base for VAT. Additionally, the Hon. Minister proposes to abolish the current 3% Insurance Premium Levy on property and non-life insurance premiums.

Standard rate booklets and newspapers

The Hon. Minister proposes to standard rate the supply of booklets and newspapers. This measure eliminates the current exemptions cascading effect for VAT-registered suppliers of booklets and newspapers.

Change in collection point of VAT on mobile phones

The Hon. Minister proposes to change the collection point of VAT charged on mobile phones from the point of importation and point of sale to the point of registration by the Zambia Information Technology Authority (ZICTA). This measure is intended to encourage compliance and enhance proper identification of mobile phones and security. More information on how this measure will be implemented is required.

Indirect Taxes

VAT – Housekeeping Measures

Clarification on meaning of daily sales

Some taxable suppliers currently send aggregated/block sales figures at irregular intervals. This has made data analysis and compliance monitoring challenging for the Revenue Authority.

To address this, the Hon. Minister proposes amending the VAT Act to require taxable suppliers to record each sales transaction for any supply using electronic fiscal devices.

This should improve the quality of data transmitted to the revenue authority and allow for improved compliance monitoring.

Accounting software integrated with The Tax Invoice Management System

The Hon.Minister proposes to amend the VAT General Regulations to allow for the use of accounting software to issue tax invoices only if the accounting software is integrated with the ZRA's Tax Invoice Management System.

Taxable suppliers will now be required to integrate their accounting software with the ZRA's Tax Invoice Management System in order to issue valid tax invoices.

Clarification on documents required for import VAT claims

The Hon. Minister proposes to amend the VAT Act to make it clear that taxable suppliers claiming import VAT are required to retain both import bills of entry and any other documentary evidence of the payment of tax prescribed by the Commissioner-General.

Previously, this section suggested that the additional documentary evidence prescribed under the VAT General Rules was optional.

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Indirect Taxes

VAT – Housekeeping Measures

Penalties on failure to issue a tax invoice

The Hon. Minister proposes amending the VAT Act to include graduated penalties for failure to issue valid tax invoices.

This measure is intended to align the penalties imposed for the above offence with those imposed for failure to record daily sales using an electronic fiscal device. The following penalties are proposed:

Offence	Applicable penalty
First offence	Up to 30,000 penalty units (K9,000)
Second offence	Up to 60,000 penalty units (K18,000)
Third offence	Up to 90,000 penalty units (K27,000)

Indirect Taxes: Customs and Excise Duty

The Hon. Minister has proposed various changes to the Customs Duty, Excise Duty and Surtax rates applicable on importation of specified goods.

The main aim is to encourage consumption of locally produced goods and also enhance the capabilities of the local producers in respect to the manufacture/production of goods.

We delve into the details of these changes in subsequent pages.

Expected impact of changes

- Promote domestic value addition and job creation in the textile industry.
- Encourage the use of locally manufactured products.
- Increase domestic manufacturing capacity.
- Promote the consumption of locally produced fruits and vegetables and use of locally manufactured cement bags, flexible intermediate bulk bags, glass products and wall tiles to support incomes of farmers and manufacturers..
- Promote machination of the agriculture sector to increase production and reduce the cost of investment in the agricultural sector by reducing various taxes that are currently applicable on inputs or stock.

Indirect Taxes: Customs and Excise Duty

The Customs Duty and Surtax changes are aimed at promoting domestic production by increasing the efficiency and competitiveness of domestic manufacturers while decreasing the attractiveness of imported goods.

Agricultural sector

The Hon. Minister has proposed to remove the 10% export duty on maize with effect from 1 November 2021.

Additionally, The Hon. Minister proposes to remove the 5% surtax payable on Bovine Semen.

In order to support the livestock subsector, The Hon. Minister proposes to remove customs duty on cattle breeding stock.

The Hon. Minister also proposes to suspend the 5% customs duty which is currently payable on importation of grandparent and/or parent stock of day old chicks for 12 months effective 1 November 2021.

Manufacturing sector

Plastic and glass production

The Hon. Minister proposes to reduce customs duty of filler masterbatch from 5% to 0%, a raw material in the production of plastic.

The Hon. Minister further proposes an introduction of a surtax at 20% on various glass and glass products.

Ceramics Industry

The Hon. Minister proposes to increase customs duty from 15% to 25% on floor and wall tiles imported from outside the COMESA and SADC regions.
The Hon. Minister further proposes to introduce a surtax at 5% on floor and wall tiles.
These measures are intended to boost domestic floor and wall tile manufacturing, hence creating employment.

Textiles industry

To promote the growth of the domestic textile industry and create employment, The Hon. Minister proposes the following measures:

- Increase customs duty to 25% from 5% and 15% on yarn made from acrylic fibre of specific HS codes imported from outside the COMESA and SADC regions.
- Introduce surtax on the following:
  - ✓ 5% on yarn made from acrylic fibre.
  - ✓ 5% on Knitted or crocheted jerseys, pullovers, cardigans, waistcoats and similar articles
  - ✓ 10% on Imported cement bags
- Increase the surtax from 5% to 20% on flexible intermediate bulk (FIB) bags.

Indirect Taxes: Customs and Excise Duty

Tourism sector

In order to cushion the tourism sector further against the negative effects felt during the Covid-19 pandemic, The Hon. Minister has proposed the extension of customs duty waivers up to **31 December 2023** for the following:

- Safari game viewing vehicles; and
- Tourist buses and coaches.

The initial waiver is due to expire on 31 December 2021.

This measure only applies to accommodation establishments, convention centres and tourism enterprises who are expected to have been affected the most by reduced activity during the pandemic.

Energy Sector

Green energy

The Hon. Minister proposes to reduce customs duty on components required to set up a solar energy system as follows:

- Solar Street lights: from 15% to 0%; and
- Solar Charge control units: from 25% to 0%.

At the same time, to discourage the use of carbon emitters the Hon. Minister proposes to induce excise duty at 5% on coal.

"Sin" Taxes

The Hon. Minister proposes to increase the specific excise duty on: importation of cigarettes (from K302 to K355 per mille); unmanufactured tobacco, tobacco refuse, smoking tobacco, waterpipe tobacco and cutrag (from K240 to K355); and opaque beer (from 15 ngwee to 50 ngwee per litre for packed and one kwacha for unpacked)

Housekeeping measures

The Hon. Minister proposes to introduce or amend the time limits in respect to the following:

- Time limit for objecting to assessments.
- Time limit in which to apply for an advance tariff ruling.
- Extended time frame for appeals to the Tax Appeals Tribunal.
- Reduction of hours for goods in customs premises.

Other proposed housekeeping measures include:

- Waiver if processing fees on administrative omissions or errors
- Reduction of licence fees for excisable manufacturers
- Review of the categories of goods that can be imported duty free by a Public Benefit Organisation

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Sector analysis

Mining

A look back

Mining remains the largest contributor to Zambia's GDP and export receipts, accounting for more than 80% (US$4.1 billion) of export earnings as at September 2021 (Bank of Zambia).

Among the New Dawn Government 2021's key commitments was to diversify exploration and production of other minerals particularly gold. In this regard Government implemented a gold buying program involving Small Medium Enterprises and partnership with other entities and purchased 478 kg of gold in the period up to June 2021. (Bank of Zambia).

The Government further planned to increase its participation into the mining sector by increasing its shareholding in major mining Companies. Through its mining arm, Zambia Consolidated Copper Mines Investment Holdings (ZCCM-IH) the Government concluded the negotiations for 100% acquisition of Mopani Copper Mines (MCM).

Lastly, the Government further committed to seek a strategic investor for Konkola Copper Mines as part of their 2021 budget. This remains work in progress as confirmed by the Minister of Mines in his press briefing in October 2021.

The recovery plan

The new Government's aspiration for Copper mining is to reach 3 million metric tonnes of annual production, from the current 800,000 metric tonnes, within the next ten years. To achieve this, the Government has committed to providing an enabling and conducive environment to take advantage of the lucrative copper prices. Its key actions include:

- Formalise operations of artisanal miners through formation of cooperatives especially for the youth and women and equipping them with the necessary skills and knowledge to enhance their productivity.
- Put in place measures to facilitate local ownership and increased participation of Zambians. To achieve this, the Government is currently conducting an audit of mining licenses.
- Reintroduction of the deductibility of mineral royalty tax for corporate income tax purposes.
- Increase the period for disallowed interest deduction carry forward to 10 years from 5 years.

Furthermore, the Government intends to promote mineral diversification by considering the production and processing of gemstones, gold, nickel, manganese, iron, industrial and other high value minerals.

Our view

A stable and predictable tax and legal framework for the mining sector is critical if Zambia is to maximise the sector's potential and encourage new investment. The reintroduction of the deductibility of mineral royalty tax for corporate income tax purposes, and not making any punitive changes to the existing mining tax regime is commendable.

To achieve the increased production targets, it is important that other elements of the mining value chain receive investment. These include: level of exploration, mining processing capacity as well as level of in-country electricity capacity.

- According to the latest September 2021 update to the Minister of Finance by the Chamber of Mines, there continues to be subdued exploration activities in Zambia compared to competing Mining countries such as Congo DR, a situation that needs Government support to be favourably turned around.
- As regards mining processing capacity, Fitch's report indicated Zambia's current maximum smelting capacity at 1.2 million tonnes. Government will need to foster the development of additional smelting capacity to the 3 million levels over the same 10 year period.
- The Energy Regulation Board (ERB)'s 2020 Sector report has indicated that the Mining Sector consumes more than 50% of the Nation's generated electricity. As such, Zambia would need to increase its electricity generation/exports by more than 150% in the next 10 years to support the 3 million tonnes copper production target. ERB's Sector report has projected additional installed electricity capacity over the next 6 years of not more than 100%, mainly from Batoka Gorge Hydro Project (2.4 GW).

Energy

Electricity

A Look back

The country has reduced its 2020 electricity deficit of 810MW, when in 2021 the projected demand forecast of about 2,310 MW was met with an average generation of about 2,100 MW (*Africa-Energy.com*). This was as a result of improved water levels across all electricity water reservoirs to support generation and the successful commissioning of the first turbine generator with a capacity of 150 MW at Kafue Gorge lower (KGL). KGL will ultimately have a total of five turbines with a combined generation capacity of 750 MW when fully commissioned. (ERB sector report 2020). In terms of consumption the mining sector continued to account for over 50% of electricity consumption while domestic customers consumed 34%.

Following the promulgation of open access regime under the Electricity Act, the Government expects an enhancement of power trading among players. (ERB sector report 2020).

Recovery plan

The Government has a focus to attract more investment in electricity sub-sector through implementation of cost reflective tariffs and structural reforms at national power utility Company, Zesco Limited.

The electricity Cost of Service Study (COSS) launched on 3rd December, 2019 with an expected completion period of one year has been delayed due to challenges arising from Covid-19 with completion timeline having revised to end of August 2021 (ERB sector report 2020).

In addition to the Hydro Power, there remains a focus by the Government to improve the energy mix by supporting renewable energy. The highly successful GET FiT solar energy program to generate 120 Mw has unfortunately been delayed owing to Covid-19 and remains at award of tender to IPP projects

Our view

Stable and sufficient electricity supply remains fundamental to economic growth and development. Whilst it is expected that the complete commissioning of the 750Mw KGL plant will lead to reductions in loadshedding,we are cautious that the projected increased mining demand as well as rural electrification will quickly swallow any spare capacity.

Key highlights

Successfully commissioning of the first turbine generator at Kafue Gorge lower (KGL) which will have a total of five turbines with a combined generation capacity of 750 MW when fully commissioned

Kariba dam is designed to operate between levels of 475m and 487m. As of Oct 2021 water levels were at 480.1m (Oct 2020: 479.2m).

There is a forecasted “normal to above normal” rainfall in the 2021/2022 rainy season by the 25th Southern African Regional Climate Outlook Forum (SARCOF 25).

Zambia has some of the cheapest electricity rates at US$0.033/kWh both in region and globally. In comparison to other mining Countries such as Chile, Congo D.R and Panama with US$0.17/kWh, 0.083/kWh and 0.16/kWh, respectively. *(globalpetrolprices.com)*

Energy

Petroleum

A look back

Annual average global crude oil prices increased by 100% in 2021, to US$70 per barrel from US$35 per barrel in 2021 (Fitch Solutions 2021). The local pump price has not been adjusted since December 2019 despite increases in the price of crude oil on the international market. As a consequence, pump prices in Zambia are some of the lowest in the region. This artificially low pump price has been achieved through changes to VAT rules applicable to fuel and other Government interventions.

Prior budgets indicated that the focus of the Government was to ensure that pump prices remained cost reflective as well as to undertake reforms in the fuel supply chain. These reforms were aimed at increasing private sector participation in the procurement and supply of petroleum products in a bid to reduce the landed cost of petroleum products.

Unfortunately it would seem that none of these were achieved and the Minister announced that the Government currently owes US$478 million in fuel arrears alone.

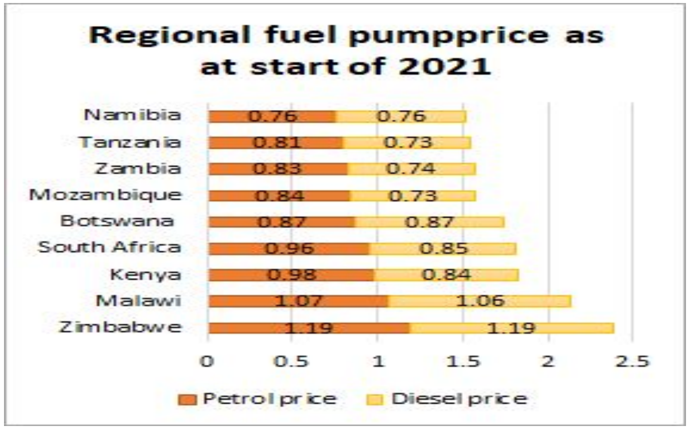
The National Energy Policy of 2019 set out to increase security of supply of petroleum products. In line with this objective, the Government commissioned a fuel depot in Mansa and completed the construction of another depot in Chipata with capacity of 6.5 million and 7.0 million litres, respectively (Energy Sector Report 2020).

The Government also amended the Petroleum (Exploration and Production) Act during the year to make the investment in the petroleum upstream sector attractive. A total of 12 blocks out of the 38 blocks have so far been granted exploration licences through a competitive bidding process.

Recovery plan

The Indeni Petroleum Refinery has been shutdown since December 2020 due to a lack of commingled petroleum feedstock in the country. As a consequence, the country now imports all its requirement of finished petroleum products.

To address the growing fuel arrears the Government intends to reform the fuel supply chain and procurement process.



(Source: ERB 2020 Sector report p25)

Our view

Change to the fuel procurement processes is key to ensuring the effective management of fuel supply and cost. This will allow for competitive landing costs and prevent arrear build up. Unfortunately the delays in tabling the Petroleum management bill before parliament do not help the process.

Agriculture

The Government views the agricultural sector as key in driving economic growth. As outlined in the President's speech to parliament, resources in Zambia's favour include:

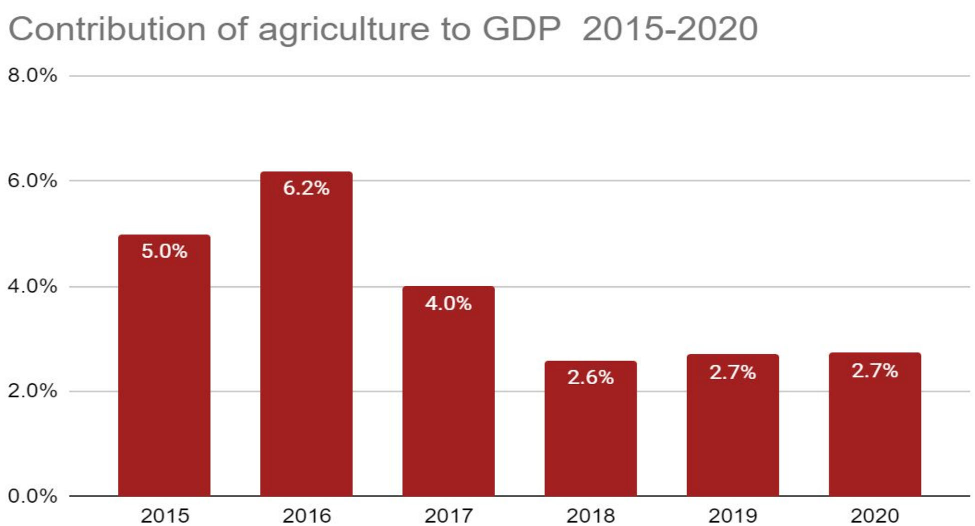
- Arable land in excess of 40 million hectares.
- Abundant fresh water resources.
- Favourable weather conditions.
- Readily available domestic and international market.
- 60% of the Zambian populace derives income from this sector.

Outlined in the Government's manifesto is the ruling party's ambition for Zambia to become the breadbasket for the region and a bigger player in the global food supply chain.

However, the sector's contribution to GDP has stagnated at around 2-3% with relative decline in the last few years (5% in 2015 to 2.73% in 2020) (Source: Statistica.com)

Main challenges facing the sector

As highlighted in the 2022 budget address, some of the challenges the sector faces includes low levels of production and productivity, limited market access, underdeveloped value chains and dependence on rain for production.



Furthermore, the Agricultural Status Report of 2020 published by the Indaba Agricultural Policy Research Institute (IAPRI), indicated that the decline in agricultural output could be attributed to high rainfall variability which affected rain-fed productions systems.

Other challenges include low productivity among small-scale farmers; poor land husbandry practices and inadequate value addition due to a lack of fully developed agro-industries.

This has resulted in the export of raw materials; inadequate agricultural finance and credit; and high dependence on one crop - maize, especially by the small-scale farmers.

Farmer Input Support Program (FISP)

Specifically, the 2022 budget address highlighted the various challenges faced by the FISP.

The program has been the most significant source of expenditure in the agricultural budget over recent years and combined with expenditure on the Food Reserve Agency (FRA), constituted 86% of the total 2021 allocation.

However, the 2022 budget address highlighted the strain on Government financial resources and persistent challenges the program faced with respect to the delivery of inputs to beneficiaries.

Agriculture

The way forward

The Honorable Minister of Finance announced a new comprehensive support program for the sector commencing in the 2022 - 2023 farming season. Key initiatives include:

- Promotion of large scale estate production to employ people of different skill levels, creating business opportunities and supporting other agro-industries. This will will be driven by the Government's efforts to create farm blocks to drive development in this respect.
- Reduce dependence on rain-fed agriculture by expanding irrigational infrastructure and facilitating concessional finance.
- Additional recruitment of Government Livestock officers to enhance the provision of services to livestock farmers as well as providing technical training and assistance.
- Additional investment in a liquid nitrogen plant to support use of artificial insemination.
- Strengthening of conservation activities particularly around fisheries to curb the effects of overfishing.
- For the aquaculture sector in particular, the establishment of additional aquaculture parks in order to increase fish production

Tax changes in the agricultural sector

Supplementing the direct initiatives stated earlier, the Government have made the following adjustments to boost activity in the agricultural sector:

- Zero-rate VAT on selected agricultural equipment and accessories.
- Remove the 5% customs duty on importation of cattle breeding stock.
- Suspension of 5% customs duty on day old chicks.
- Removal of 10% export duty on maize effective 1 November 2021 .

Our view

Performance of the agricultural sector remains critical to the current and future prospects of the wider economy. It is therefore encouraging that the measures announced in the budget signal the Government's intent to stimulate growth of the sector.

Owing to the sector's inherent potential, a higher contribution to overall GDP and export earnings is long-overdue. With Zambia's neighbouring countries continuing to experiencing maize deficits, the lifting of the maize export ban and removal of the 10% export duty is a step in the right direction and, if well-executed, has the potential to deliver an immediate boost to the sector.

Also, considering that inflation is highly sensitive to maize output - which in itself is sensitive to rainfall patterns and efficient/timely access to farming inputs - interventions aimed at addressing the inefficiencies of FISP and reduction of dependence on rain-fed agriculture will deliver positive results in the medium to long term.

More broadly, Zambia is in a unique position, surrounded by countries including DRC, Mozambique and Angola that, for varied reasons, have less vibrant agricultural sectors. To optimise this export potential, additional focus needs to given to diversification away from maize, towards value addition to agricultural output and addressing access and affordability of finance to farmers.

Health

A Look back and recovery plan

The health sector experienced several challenges which were exacerbated by the Covid-19 global pandemic.

To address these challenges, the Government has increased the allocation to the sector by 44% from prior year with the major increment allocated to drugs and medical supplies of K1.98 billion representing 143% increment from prior year.

COVID-19 disruption

COVID-19 stretched the sector in ways and levels not seen before. Capacity of hospitals to handle the high number of cases, diagnostic platforms, test kits, PPE, bed space, oxygen and drugs all proved inadequate. It further negatively affected services for other diseases and the supply chain of health commodities.

Zambia's COVID19 vaccination program has continued with three vaccines approved so far - Astrazeneca, Johnson and Johnson and Sinopharm. A total of 533,695 people out of a target of 8.4 million people eligible for vaccines have been vaccinated according to information from ZNPHI as at 30 October 2021.

The Government has set aside K704 million for COVID19 vaccines in the 2022 budget.

Health Infrastructure

Over the past few years, the Government has invested significantly in the construction of general hospitals, mini hospitals and health posts. It is positive to note that the mid term review of the Zambia National Health Sector Plan as at March 2020, indicated that health facility density exceeded the target of 11.8/10,000 by 3.3. Nonetheless, access to healthcare remains an issue and more investment is required. Completion of stalled infrastructure projects will be the immediate priority to help close this gap.

The Government in its 2022 budget is planning to adopt a rational approach to health infrastructure maintenance and has provided a similar budget allocation to that in 2021.

Procurement and Supply chain

The Government's ability to procure much needed drugs was impacted by the COVID19 disruptions on the supply chain, existing drug debt and the tight fiscal space.

As a consequence shortages of essential medicines such as those for treating malaria and family planning were experienced in the year.

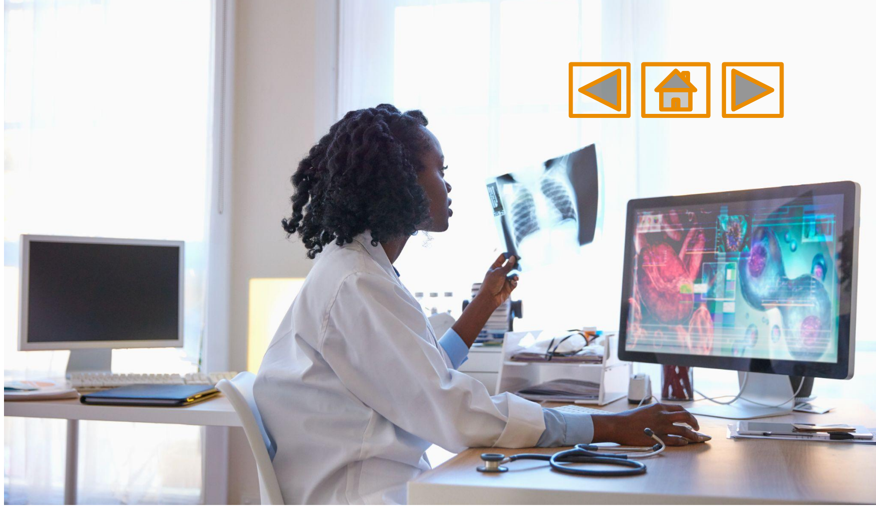
To address the challenges in the procurement and supply chain management at the Ministry of Health, the Government has proposed to actualize the provisions of the Zambia Medicines and Medical Supplies Agency Act No. 9 of 2019 by moving all medical procurement functions to Zambia Medicines and Medical Supplies Agency (ZAMMSA). The practical implications of this remain to be seen.

Human resource for health

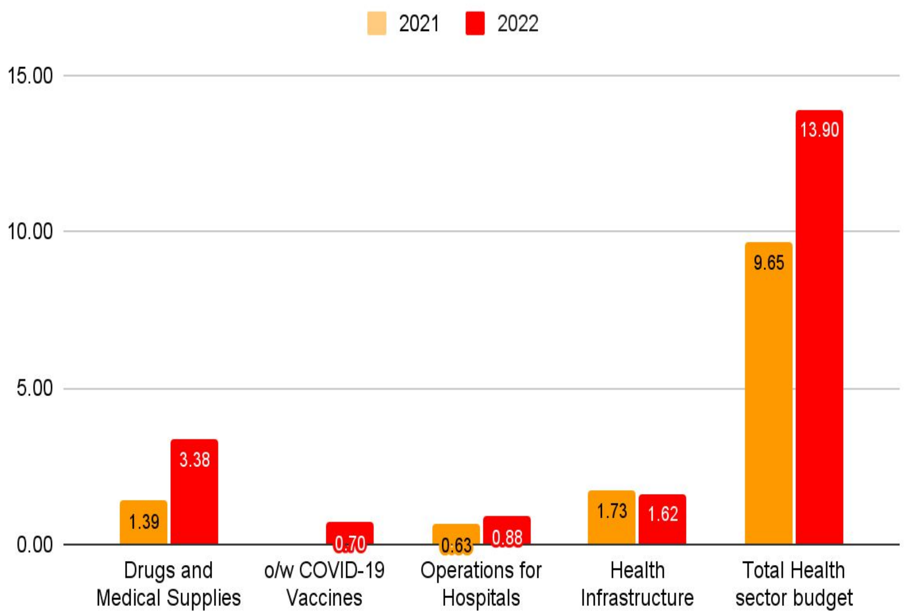
The investment in healthcare infrastructure over the last few years has unfortunately not been coupled with a similar increase in Health care workers. Based on the mid term review of the Zambia National Health Sector Plan as at March 2020, the total health workforce requirement as per the established positions end of 2019 was 129,389 with only 60,334 filled representing a gap of 52%. The patient health worker ratio was 16.5/10,000 against the WHO target of 35/10,000.

To address this shortage as well as deal with the vast number of graduates that have not found employment, the Hon. Minister of Finance has proposed to recruit 11,200 new health personnel.

Health



Budget Allocation in billion (K)



Our view

The increase in allocation to the health sector of 44% compared to 2021 is commendable provided that the release of funds is timely and in full. The Health sector allocation accounts for 8% of the total annual budget but falls far short of the 15% target as set in the WHO Abuja Declaration. We however hope that this increased allocation will go some way to dealing with the drug debt that is choking the supply chain. We urge the Government to continue to find innovative measures of health financing in order to meet this target.

The Hon. Minister of Finance has stated in his budget speech that there are plans to reform the National Health Insurance Scheme so that it benefits all. We hope the reforms will result in increased resources available to the sector.

There is also an urgent need for the strengthening systems to reduce on wastage in the sector as seen from the Auditor General's report especially in the procurement functions. Moving the function to ZAMMSA alone is not enough. Strict adherence to ZPPA Act and measures to deter offenders are needed.

Manufacturing and industrialisation

A look back

The manufacturing sector has been at the centre of economic growth for the majority of developed countries and supported the transformation of these nations. For Zambia to increase its economic fortunes and reap the benefits that come with a well-established manufacturing sector, there is an urgent need for the Government to put in place policies that will accelerate manufacturing, value addition and international trade.

According to data published by the Zambia Statistical Agency, Zambia has seen a steady decline in the manufacturing sector's contribution towards GDP growth. The sector's contribution to GDP dropped from 4.4% in 2017 to 2.4% in 2019. In 2020, the manufacturing sector contracted by 1.5%. This decline between 2017 and 2019 was mainly attributable to the electricity deficit that the country experienced which in turn impacted the sector's ability to produce at desired levels. On the other hand,the contraction recorded in 2020 of 1.5% was attributable to the state of the economy, that is, persistent fiscal deficits, high debt distress and a recession triggered by the onset of the COVID-19 pandemic. However, it's not all doom and gloom, as the economy is showing signs of recovery and the results for the first quarter of 2021 indicates that the sector recorded a growth of 2.1%.

Recovery plan

On the path to economic recovery and sustainable growth, the Government has put manufacturing as one of the key sectors to help achieve this. In his address to parliament, the Hon. Minister of Finance announced the Government's strong intention to support value addition to products from the agriculture, forestry and mining sectors. He further announced the revision of the minimum investment threshold for Zambian citizens in the Multi-Facility Economic Zones (MFEZ) and industrial parks from US$500,000 to US$50,000. In addition to the already existing tax incentives for companies looking to invest in the Multi-Facility Economic Zones (MFEZ) and industrial parks, two new incentives were announced and these include:

- Zero percent tax for 10 years from the first year of commencement on dividends declared on profits made on exports; and
- Zero percent tax for 10 years from the first year of commencement on profits made on exports.

The two new incentives are meant to encourage local companies operating from these zones and parks to target the export market and in turn, boost foreign exchange earnings.

Our view

The Zambia Development Agency (ZDA) continues to offer incentives for investing in MFEZs and industrial parks as a way of supporting the manufacturing sector and economic growth. However, these have not yielded the desired results as they were not considered attractive. In the past, we have called on the Government to revisit some of these incentives to make them more attractive and accessible to micro, small and medium-sized companies. The new tax incentives and investment threshold revision are welcome as they will encourage more citizen participation in the manufacturing sector and contribute to the growth of the economy as a whole.

Tourism

A Look back

The tourism sector was hardest hit by the impact of COVID-19 both globally and locally due to international and domestic travel restrictions coupled with country specific lockdowns. International tourist arrivals in Zambia fell by 70.7% to 296,550 in 2020 from a high of 1.0 million in 2019. This was expected as the Covid -19 Pandemic became more aggressive with each wave, with the latest wave coming with the deadliest variant yet, the Delta variant in 2021. This decline led to a drop in occupancy rates in hotels as restrictions on large gatherings were implemented resulting in job losses and reduced revenues. A World Bank survey of households in Zambia found that 71% of respondents in the tourism sector reported experiencing job losses.

At the peak of the pandemic, extreme lockdown measures were implemented to curb the spread of COVID-19 including complete lockdown of all restaurants. Hotels and lodges where only allowed to serve guests while non guests could only be served on a takeaway basis. The restriction of international travel meant these facilities could only serve domestic visitors. This led to an increase in domestic tourism which in turn helped to mitigate the impact on jobs and businesses in the short term.

The recovery plan

According to Fitch Solutions, a growth of 8.7% is expected in 2021 in tourist arrivals in Zambia. This will largely depend on the severity of a fourth wave, if it does come, and the vaccination rates. Further, the opening of the new terminal two at Kenneth Kaunda International Airport in Lusaka in August 2021 should contribute to the increased arrivals. International arrivals are expected to start going up again as extreme lockdown measures were lifted.

The tourism sector remains a key sector in Zambia's development. As such, it is one of the top six sectors the new Government is focusing on increasing output in the initial stages of its term.

The Government has extended the reduction of the corporate tax rate from 35% to 15% for an additional year (2022) and the waiver on customs duties on tourism vehicles to 31 December 2023 to enable the sector's recovery from the Covid-19 impact. A proposal to reduce Visa fees by 50% has been made to increase to improve competitiveness.

Additionally, increased marketing of the sector, especially to surrounding countries, will also be enhanced. Specifically, the African Union Summit scheduled to be held in Zambia next year will provide a good platform to showcase what the country has to offer apart from the Victoria falls and other Livingstone based facilities.

Further, the New Dawn Government plans to revamp and increase the tourism sector's contribution to the economy and employment through various initiatives. Emphasis is on reduction of the cost of doing business and diversification of tourism including opening up areas previously underutilised for tourism such as Kasaba Bay in the northern province and Liuwa National Park in Western Province. In the next 5 years, the Government plans to improve infrastructure such as roads, electricity and airports specifically in areas with tourist potential. This, paired with a regulatory framework that will make these areas attractive for the private sector to establish hotels, lodges and other tourism facilities.

Our View

Plans to revamp this sector are a welcome move considering the contraction it suffered due to the Covid-19 pandemic. However, the New Dawn Government is faced with bigger challenges that require immediate attention such as debt restructuring and conclusion of a deal with the IMF. This may largely impact the attention and resources allocated to this sector as it may become secondary to these matters. The Ministry of health has alluded to the coming of a 4th wave of the Covid-19 pandemic. This will likely result in a repetition of the complications that come with each wave, specifically, extreme lockdown measures are likely to be put in place once again. This sector may end up being depriotised resulting in postponement of investment of resources in it as there may be no immediate benefits to be enjoyed. Growth in this sector is therefore expected in the medium to long term.

Water and sanitation

A look back

One of the objectives of Zambia's Vision 2030 is to provide secure access to safe potable water sources and improved sanitation facilities to 100% of the population in both urban and rural areas.

According to the Seventh National Development Plan (7NDP - 2017 to 2021), Water Sanitation and Hygiene ("WASH") sector objectives were to attain:

- 100% of urban population with access to clean and safe basic drinking water by 2021;
- 70% of rural population with access to clean and safe basic drinking water by 2021;
- Reduce open defecation to nil urban areas and 10% rural areas by 2021; and
- 40% of population using a hand washing facility with soap and water by 2021.

The Zambia Demographic and Health Survey ("ZDHS") of 2018 showed that 88% and 50% of Zambia's urban and rural population, respectively, had access to basic drinking water services while 35% and 26% of urban and rural population, respectively, had access to basic sanitation services.

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.

The recovery plans

Following the ZDHS survey, major strides in improving access and quality of water supply have been made through several projects including:

- US$150 million Kafue Bulk Water Supply Project (KBWSP);
- US$450m Kafulafuta water project; and
- US$18.6 million Integrated Small Towns Water Supply and Sanitation Project in Nakonde and Mpika.

The Government further plans to continue working with cooperating partners to ensure that the sector receives adequate investment in projects that promote sustainable access to safe drinking water and sanitation while strengthening water sector governance.

Based on the 2022 budget, the Government has shown a commitment to improving the sector by increasing the allocation by 9% from from K2.2 billion in 2021 budget to K 2.4 billion in 2022 budget in absolute terms.

Additionally, as a strong statement of intent, effective 1 January 2022, the Government has scrapped fees relating to the application and registration for drilling domestic boreholes, in addition to annual fees.

Our View

Increased focus to the sector is key to continued containment of the Covid-19 pandemic. It is critical not only to sustain the existing water, sanitation and hygiene services but also scale-up in an effort to reach the vulnerable sections of society, as well as respond to the rising demand driven by population growth.

To fully meet the set objectives, the Government will need to accelerate the construction of dams, water schemes and boreholes to improve access to clean water and adequate sanitation services for households in both urban and rural areas.

However, access to basic sanitation remains relatively low and needs much attention if the set objectives are to be met.

"Water and Sanitation sector is key to raising the living standards of the people

Transport

A Look back

The importance of an efficient transport network system cannot be overemphasised. Facilitation of transportation of goods and services locally, domestically and regionally requires a transport system that effectively and efficiently meets the requirements of its stakeholders. However, this sector requires significant capital investment and as such requires well thought through planning to maximise returns on investment.

Road Transport - Zambia being a country that has covers a vast expanse of land has heavily relied on road infrastructure. Several road projects projects have been completed in the year to date to stimulate growth in other economic sectors with one key milestone being the completion of the US$298 million Kazungula Bridge linking Zambia and Botswana financed by Zambia, Botswana and JICA. This project is key as it is expected to facilitate a seamless and efficient movement of goods, services and people, thereby reducing the cost of doing business, whilst contributing to industrialisation, and enhancing trade within the SADC regional. However, other key routes such as the Lusaka-Ndola, Chinsali-Nakonde and Kazungula-Sesheke roads remain in a bad state.

Air Transport - Although air transport has been adversely affected globally by the COVID-19 pandemic, investment in infrastructure continued.

The upgrading of both the Kenneth Kaunda International Airport and the now renamed Simon Mwansa Kapwepwe International Airports in Lusaka and Ndola respectively were completed.

Rail - A fully operational railway system is essential for Zambia, however the system has for quite a while been neglected with most of its infrastructure is in a poor state. Maintenance of this infrastructure is paramount before measures to improve the railway system can be implemented.

The recovery plans

The new Government recognises that maintenance, rehabilitation and construction of infrastructure within this sector that promotes economic growth must continue. With the financial constraints experienced at the moment, the focus will be on pursuing Public Private Partnerships "PPP"as a way to continue developments in this sector. Investments will be strategic with the focus being on upgrading and rehabilitating feeder roads, improving rural connectivity road and working on key roads such as the, Lusaka-Ndola, Chinsali-Nakonde and Kazungula-Sesheke roads. Works on Kasama and Mbala airports as well as provisional aerodromes will continue due to the potential to widen access to new tourism routes.

Our View

The route of PPPs require that the Government minimises economic and political risks. Although sound policies will help attract PPPs to the market, astute negotiating is necessary to develop agreements that will improve the overall economy. Investing in an infrastructure project at any level is risky for the private investor. The Government cannot control fluctuations in the world markets, but it can minimize political and economic risks within its purview to attract more PPPs to its market. Well-established and enforced policies against corruption, combined with low business transaction costs, a transparent legislative system, and exchange rate and monetary stability are key. Furthermore, defined standards for dealing with PPP partners, an established champion for the PPP process, and clear rules for entering into and maintaining PPP agreements will send a distinct message that the Government is organized and committed to bringing private sector investments into the nation.

Social protection

A look back

The objective of social protection is to ensure sustained and continued financial support for the poor and vulnerable members of the community.

In 2021, Zambia like many countries in the world was heavily hit by the Covid-19 pandemic. This resulted in a lot of lives being lost, lower production hours due to health measures (people working from home) and unemployment due to some companies closing due to the high cost of production during the implementation of Covid-19 health measures. This resulted in the unemployment rate increasing in Zambia to 13% (2020: 12.17%) *(tradingeconomics.com)* and higher number of vulnerable people in the country.

The recovery plan

In 2022, K6.3 billion (2021: K4.8 billion) has been allocated to the Social Protection Sector reflecting an increase of 31% from prior year. The biggest allocation is towards the Social Cash transfer programme at K3.1 billion (2021: K2.3 billion).This programme was in the past faced with high administration costs, delayed payments and misappropriation of funds.

Key changes in the social cash transfer programme includes the increase of beneficiaries to over 1 million (2021: 0.88 million), increase in transfer value per household to K200 (2021:K150), increase in household with several disabled members K400 (2021:K300) and Food security pack programme beneficiaries who increased to 290,000 (2021: 263,700).

The Government will improve the social cash transfer programme through improving and strengthening the payment mechanism and oversight of the programme.

In 2021, the pension benefit arrears stood at K1.2 billion for retired public service workers. The current Government aims to have zero pension benefits in the year 2022 and curtail the accumulation of arrears going forward.

Further, the Government will review and amend relevant legislation including:

- Public Service Pensions Act Cap 260 of the Laws of Zambia
- 284 of the Laws of Zambia and
- the Pension Scheme Regulation Act No. 27 of 2005.

The new pension system will be amended to enable retirees to access their accrued benefits before retirement.

Our View

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 allows for foreign and local investment which will ultimately 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 programme.

Education and skills development

A look back

Both UNESCO and Fitch Solutions Country Risk have cited the low quality of Zambia's education system as one of the major risks facing investors looking to recruit skilled labour. Zambia has one of the lowest expenditure levels spent on education as a share of GDP (4% per 2021 budget) among its Southern African region peers, resulting in extremely high student-teacher ratios, high primary school dropout rates and low enrolment levels in secondary schools. The National Action for Quality Education in Zambia estimates that the GDP allocation to education should be 21% as opposed to the current 4%. According to UNICEF estimates, the pupil-teacher ratio at the secondary school level is 25.4, almost twice above that at the primary school level of 47.9. This number, however, does not mean that Zambia is investing more in secondary school education by employing more teachers; rather, this is a result of the low enrolment rate at the secondary education level. Like primary school education, access to a secondary school is very limited amongst rural dwellers. Over 50% of Zambians live in rural areas where poverty levels are the highest and, as a result, accessing education remains a key challenge.

Limited investment in the education system has also resulted in an inadequate curriculum, low teaching and training quality and a shortage of well-trained teachers. Consequently, Zambia's labour market lags behind its peers in the quality of skills. Overall, both low quality and limited accessibility of secondary education indicate that businesses face significant shortages of workers skilled beyond having basic literacy and numeracy.

The recovery plan

The Government has allocated K18.07bn in the 2022 budget, up from K13.7bn reflecting a 32% increase on the previous year. The budget allocation focuses on three key thematic areas namely: increasing access to education by constructing an additional 120 secondary schools, improving the quality of education by reducing the pupil-teacher ratios. This will be achieved by recruiting 30,000 teachers in 2022. Lastly, the Government plans to provide free education by increasing the quantum of grants to public schools to cater for the operational costs previously financed by school fees. As an example, the grants to primary schools will be increased three-fold in 2022. The construction of the secondary schools will be funded by a concessional loan from the World Bank under the Zambia Education Enhancement Project.

Our view

Over the last couple of years, several donors, including the World Bank have partnered with the Ministry of General Education to alleviate the challenges facing education in Zambia. These have been focused on the quality of teaching and learning conditions. The Government should continue to work with its Cooperating Partners and pay attention to:

1. Continuous revision of curriculum and educational standards to address current needs of the economy and society. This must include STEM curriculum to actualise the digital ambitions set;
2. Focusing on building the capacity of teacher training institutions to ensure they are equipped with the relevant knowledge and skills to impart knowledge to learners; and
3. Investment in schools books and other resources necessary to deliver quality education.

Technology and science

Strategic importance of Information Technology

Zambia and it's emerging digital economy

Government has identified Information Technology as a critical driver for financial inclusion, innovation and to rapidly create job opportunities for the Zambian youth.

To facilitate this ambition, the Government recently formulated the Ministry of Technology and Science which includes ZICTA, SMART Zambia, Communications, NISIR and other departments. The Ministry aims to address among other things Government decentralisation, which ultimately will improve Government efficiency and make information more accessible.

Three pillars have been identified as key in accelerating the country's digital transformation

Digitising government

Digitising Government activities will make information sharing and coordination amongst it's agencies as well as public access to information easier ultimately enhancing citizen satisfaction.

Electronic platforms have been successfully implemented to improve transparency, accountability, and efficiency, most notably through the Government Services Bus (GSB) developed by Smart Zambia. GSB is a data integration tool for agencies and its connected branches. According to the 2020 budget, 28 Government entities were effectively linked onto the GSB. The 2022 budget has projected an additional 100 public services to be linked onto the GSB by the end of 2022.

Improving access to services

Continued investments in broadband and fibre network will help ensure universal access to ICT by the citizenry.

In the 2022 budget the Minister announced additional investment in communication towers which are a key component in providing access for the rural population.

An extensive fibre network is a critical component to achieving last mile connectivity and as of 2019, the Government Wide Area Network was connected to 122 Government entities. This resulted in a total fiber optic coverage of 9,050 kilometers across the country. Since then, the coverage has grown to more than 12,000 kilometers, linking 89 districts.

There is also need of optimization of current IT infrastructure such as; data centres and towers in ensuring enhanced delivery of services.

Creating an enabling environment

An enabling environment that promotes digital safety through policy and regulatory development is key to supporting the digital revolution.

In 2021, the Cybersecurity and Cybercrime Act, Data Protection Act and Electronic Communications and Transactions Acts were enacted. This was a positive step in reforming the regulatory landscape but it remains critical that other policies and legislation are harmonised.

Tax Data Card

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Tax Data Card

Corporate tax rates	2022	2021
Standard rate	30.0%	35.0%
Banks	30.0%	35.0%
Telecommunication companies		
Income not exceeding K250,000	30.0%	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%	15.0%
Rental income above k800,000*****	30%	n/a
Manufacturing of ceramic products**	0.0%	35%
All other companies except mining companies	30.0%	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 (both corporates and individuals)with turnover below K800,000 (excludes income earned from consultancy service, property rental, mining and VAT registered businesses)	4.0%	4.0%
Turnover Tax levied on rental income below k800,000	4.0%	n/a

*The reduced rate has been extended up to 31 December 2022
**The suspension is for the 2022 and 2023 charge years
*** 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.
*****Corporates with rental income above k800,000

Tax on casino, lottery, betting and gaming******	2022	2021
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	25.0% 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
Withholding tax on winning from gaming ,lotteries and betting	20%	20%

******Introduction of mandatory requirement for tickets to display the Withholding tax payable on potential winnings

Tax Data Card

Capital deductions*	2022	2021
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%
Local content allowance		
Local content allowance****	2%	2%
Carry forward of trading losses	**No. of years**	**No. of years**
Electricity generation and mining operation	10	10
Other companies	5	5

*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.

Corporate Income Tax rate	2022	2021
Mining Profits		
Profits earned from mining operations (for both base metals and industrial minerals)	30.0%	30.0%
Mineral Processing	30.0%	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%

* Mineral Royalty is tax deductible from 1 January 2022

Tax Data Card

Income Tax Individuals

2022 Monthly income bands

	Income from K	Income to K	Tax rate %	Tax on band (maximum) K	Cumulative tax on income (maximum) K
First	0	4,500	0.0	0	
Next	4,501	4,800	25.0	75	75
Next	4,801	6,900	30.0	630	705
Above	6,900		37.5		

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		

Non-cash benefits

Housing benefit :

a) Where an employer provides free housing to the employee in a 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.

Non-cash benefits

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

	2022	2021
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%
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%
Insurance placed with non-resident reinsurers	n/a	20%

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. Interest earned by individuals from interest earning accounts is exempt.

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.

Tax Data Card

Insurance Levy	2022	2021
Charged on Insurance Premiums*	n/a	3.0%

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%**

*Extends zero-rating to selected agriculture equipment and accessories

*Extend the zero-rating on renewable sources of energy (solar charge control units and street lights)

*Standard rated property and non-life insurance

*Standard rate booklets and newspapers

**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*

*The insurance premium levy has been abolished on property and non-life insurance and VAT , at the standard rate, has been re-introduced on thereon.

Note: The above rates, threshold and deadlines remain unchanged from 2021.

Property Transfer Tax (PTT)*	2022	2021
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%
Transfer of mineral processing and other mine related licenses	10%	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:

	2022	2021
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.

Tax Data Card

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 (2022)	Tax Per Vehicle per annum (2021)
64 Seater and above	K12,960	K10,800
50-63 Seater	K10,800	K9,000
36-49 Seater	K8,640	K7,200
22-35 Seater	K6,480	K5,400
18-21 Seater	K4,320	K3,600
12-17 Seater	K2,160	K1,800
Below 12 Seater	K1,080	K900

Deadlines and Penalties

2022 Deadlines	Penalty	Interest
Income Tax - Companies		
Provisional tax Return deadlines: First Provisional Tax Return: 5 March 2022 (manual submission) 31 March 2022* (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 2022, 30 September 2022 & 31 December 2022 (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 2022 (manual submissions) 21 June 2022 (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

2022 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 2022 (manual submissions) 21 June 2022 (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

2022 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) .

Tax Evasion

The penalties for tax evasion on conviction is 300 thousand penalty units (K 90,000) .

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