
2009 BUDGET OVERVIEW OF TAX CHANGES

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INTRODUCTION

The 2009 budget takes advantage of the robust economic growth the country has experienced in the recent past and the challenges that we are yet to face.

The Zambia Revenue Authority is committed to support Government efforts towards provision of significant funding for a wide range of Government programmes.

I am therefore pleased to present an overview of the major changes in the tax legislation and other relevant information to our taxpayers as announced by the Minister of Finance and National Planning in his annual National Budget Address of 30th January 2009.

The overview gives a guide on the measures announced in the Budget as reflected in the various Bills, Statutory Instruments and Commissioner General's Rules that contain the enabling legislation. The finer details are contained in the published legislation. However, it is worth noting that some measures in this pamphlet are subject to Parliamentary approval.

May I also recommend visiting the ZRA website, which includes all the information enclosed in this pamphlet and many further useful tax details: www.zra.org.zm

It is my wish that the information we provide will improve the transparency of our discussion on tax revenue matters in support of greater accountability.



Chriticles P. Mwansa
Commissioner General

1.0 DIRECT TAXES

1.1 CONCESSIONS

1.1.1 Change the Pay As You Earn (PAYE) Schedule.

The exempt threshold has been increased from K600, 000 per month to K700, 000 per month while income bands have been adjusted upwards by K100, 000.

Proposed regime		Current regime	
Income Bands	Rate %	Income Bands	Rate %
0 – K700,000	0	0 – K600,000	0
K700,001 - K1,335,000	25	K600,001 - K1,235,000	25
K1,335,001– K4,100,000	30	K1,235,001– K4,000,000	30
Above K4,100,000	35	Above K4,000,000	35

The objective of the measure is to provide relief to workers. The PAYE threshold has been increased by 17 percent which is 6 percentage points above the targeted 2009 inflation rate.

1.1.2 Change the taxation of qualifying gratuities so that income equivalent to the annual exempt income under PAYE is tax free (taxed at zero percent) and the balance be taxed at a flat rate of 25 percent.

The measure is intended to give gratuity tax treatment that recognizes that it could be a final after expiration of a contract for one who may not get employed, or it may be the only payment in a long period of time for those who may not get another job immediately.

1.1.3 Increase the exempt portion for terminal benefits from K20 million to K25 million

This measure is intended to cushion the effects of inflation and provide more relief to retiring workers.

1.1.4 Increase the allowable pension contribution from K135, 000 per month to K155, 000 per month.

The measure is intended to provide further relief given to workers contributing to pension schemes.

1.1.5 Increase the tax credit for persons with disabilities from K600, 000 to K900, 000 per annum i.e. K75, 000 per month.

This measure is intended to enhance relief given to differently abled persons by cushioning the effects of inflation on the current credit levels. Currently the

tax credit for persons with disability is at K600, 000 per annum equivalent to K50, 000 per month.

1.1.6 Increase the period for carry forward of losses for companies in the energy sector in particular Hydro and thermal (except wood) power generation from 5 years to 10 years.

This measure is intended to promote investments in the energy sector in view of the power shortage in the region.

1.1.7 Abolish Windfall tax which was introduced in 2008 for the mining sector.

This measure is intended to abolish windfall tax has made the mining tax regime very onerous, particularly for high cost producing mines. The variable profit tax currently in place is adequate to address the issues of taxing supernormal profits for which windfall tax was intended to address.

1.1.8 Allow 100 percent capital allowance deduction for the mining sector

This measure is intended to be an investment incentive for the mining companies in the light of cash flow difficulties that mining companies are currently experiencing. The measure will allow mining companies to claim capital allowances within one year rather than in four years.

1.1.9 Classify hedging income arising from mining operations as part of mining income so that it is taxed under the mining tax regime

The measure is intended to include hedging income as part of mining income for tax purposes. However, it should be noted that any gains or losses from hedging will still be subject to tax but under the mining tax regime.

1.2 COMPENSATING MEASURES

1.2.1 Increase Advance Income Tax (AIT) from the current 3 percent to 6 percent

This measure is intended to remove the incentive by non-registered traders to avoid payment of turnover tax as it will bring the AIT at parity with the turnover tax.

1.2.2 Exclude interest accruing on loans from related parties from current liabilities for purposes of Property Transfer Tax if they are not at arms' length in accordance with the provisions under thin capitalization.

This measure is to safeguard government revenue by amending the current computation of property transfer tax on shares that allows for the inclusion of

interest on related party loans regardless of whether the interest accrued on the loans are at arms' length or not.

1.2.3 Increase company income tax rate for income earned from export of cotton lint without export permit from MCTI from 15 percent to 35 percent

This measure is aimed at discouraging exports of cotton lint (raw cotton) in order to increase local value addition. This is in recognition of the availability of local processing capacity.

1.3. HOUSEKEEPING MEASURES

1.3.1 Amend Section 41 so as to provide for tax deduction on donations made to public institutions such as educational, health, public safety and similar institution.

This measure is intended to make donations to public institutions allowable as a deduction for income tax purposes in order to encourage donations to public institutions.

1.3.2 Provide for exemption in the Income Tax Act for statutory bodies that are exempt from income tax under their respective Acts, such as Bank of Zambia, Energy Regulation Board, Pensions and Insurance Authority.

This measure seeks to regularize and harmonize the Income Tax Act with the other relevant Acts for some statutory bodies that have within their respective Acts, provisions that exempt them from paying income taxes (except on, among others Government bonds and Treasury bills).

1.3.3 Amend Section 37 to provide for the increase in the allowable deduction for pension contribution.

The measure is meant to correct the inadvertent omissions of some provisions that were not adjusted accordingly when the allowable deduction for pension contribution was increased from K180, 000 to K1, 620,000 in the 2008 budget.

1.3.4 Amend the Income Tax Act to remove any reference made to the repealed Mines and Minerals Act and substitute it with the Mines and Minerals Development Act of 2008.

The measure is intended to align any references to the Mines and Minerals Act to the Mines and Minerals Development Act of 2008.

1.3.5 Amend the Income Tax Act to remove any reference made to the repealed Small Enterprises Development Act and substitute it with the Zambia Development Agency Act of 2006.

The measure is intended to align any references to the Small Enterprise Development Act to the Zambia Development Agency Act of 2006.

1.3.6 Repeal Paragraph 9(4) and (5) of Part IV of the Second Schedule to remove reference to exempt portion of interest.

The measure is meant to align the relevant provisions with the current law that removed the exempt portion on interest earned and reduced the rate of tax on interest earned by individuals to 15 percent.

1.3.7 Amend the Income Tax Act to harmonize the provisions relating to the disposal of distrained (ceased) goods and chattels with the Value Added Tax Act.

This measure is intended to harmonize the procedure for disposal of distrained (ceased) goods and chattels under the Income Tax Act and the Value Added Tax Act.

1.3.8 Amend the Income Tax Act so as to provide for the requirement for all companies to include audited financial statements when filing their income tax returns

The measure is meant to bring the requirement in line with the Companies Act, thereby improving compliance and reduce the risk of revenue loss when determining the tax liability. Further, the measure shall not increase compliance costs as companies are already required to submit audited financial statement under the Companies Act.

1.3.9 Provide for the definitions of Public Benefit Organisation and Public Benefit Activity.

The measure is meant to support the amendment recommended for section 41 on donations to approved organisations including public institutions in the education and health sectors.

1.3.10 Provide for the definition of Hydro and Thermo Power Generation

The measure is meant to provide for the proposal related to the carry forward of losses for this sector.

2.0 VALUE ADDED TAX

2.1 CONCESSIONS

2.1.1 Zero rate windmills and maize dehuller.

The measure is intended to encourage local manufacturing of these products and also make them competitive against the imported ones.

2.1.2 Zero rate the following agricultural equipment and spares

- a) Two Wheel Tractor and Accessories;**
- b) Tractors up to 60 Horse Power;**
- c) Ploughs, Harrows, Disc Harrows, Planters, Seeders, Rippers/ Sub Soilers, Cultivators;**
- d) Pump Sets; and**
- e) Knap Sack Sprayers (Agricultural Sprayers)**

The measure is intended to ensure that unregistered farmers that cannot claim input VAT on such equipment do not incur the any VAT. This measure will also reduce input costs and enable farmers expand production and make farming a viable sector.

2.1.3 Extend the deferment scheme to include copper and cobalt concentrate

The measure is meant to encourage local smelting of copper and cobalt concentrates due to increased local smelting capacity.

2.2 HOUSEKEEPING MEASURES

2.2.1 Amend the VAT General Rules to allow suppliers who are engaged wholly or mostly in the production of seasonal crops to submit returns on a three monthly tax period.

The measure is intended to reduce the tax burden for the suppliers in terms of the cost of preparing returns and travelling long distances to submit returns. There will also be cost saving on the part of Zambia Revenue Authority by processing less nil and repayment returns.

2.2.2 Amend the VAT Act to include the requirement by the registered suppliers to maintain business records in English and to extend the prescribed period in which to preserve such records from five (5) years to six (6) years.

This measure will ensure that the records are maintained in the official language of English and this will facilitate the understanding of the taxpayers' books of account and quicken up tax audits. On the other hand, extension of the period to six (6) years will harmonize the VAT Act with the Income Tax Act.

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- 2.2.3 (i) Amend the VAT Act to incorporate the implementation of Minimum Taxable Values (MTV) mechanism; and**
- (ii) Amend the VAT Act to re-introduce the requirement for suppliers or manufacturers of MTV specified goods to submit to the tax authority a schedule of recommended retail selling prices by product category as and when there is a price change or on registration taking effect or any other time as the Commissioner General may determine in particular circumstances; and such a schedule of prices should form part of the MTV regulations.**

This measure is intended to re-introduce the requirement of issuing statutory order every time there is a change in the selling price of specified goods by requiring suppliers or manufacturers of MTV specified goods to submit to the tax authority a schedule of recommended retail selling prices by product category as and when there is a price change or on registration taking effect or any other time as the Commissioner General may determine in particular circumstances.

2.2.4 Increase the VAT refund period for exploration companies to seven years.

The measure is intended to bring the VAT Act in line with the 7 years provided for under the Mines and Minerals Development Act of 2008.

2.2.5 Harmonise the VAT law by allowing the current zero rated tour activities to tourists to be extended to cover sub-contracted services among tour operators with the exception of commission charged.

The measure will harmonise the treatment of tour packages and individual tour services as zero rated items for the purposes of VAT.

3.0 CUSTOMS AND EXCISE

3.1 CONCESSIONS

3.1.1 Remove customs duty on vegetable oil of heading 1507.10.00 (crude soybean oil), 1512.11.00 (crude sunflower oil) currently at 5 percent and 1511.10.00 (crude palm oil) currently at 15 percent.

The aim of this measure is, therefore, to level the playing field by harmonising duties on crude vegetable oils with the main competitors in the region to enable local firms capture a greater share of the regional market, thereby creating employment.

3.1.2 Reduce excise duty on clear beer from 75 percent to 60 percent.

This measure is intended to make locally produced beer more expensive than the average in the region and stimulate demand for the locally manufactured beer as consumers of alcohol have resorted to illicit brews while importers of clear beer have resorted to smuggling. With increased demand, it is expected that the sector will increase investment, create more jobs and in the medium to long terms, create and develop a market for barley farmers through out-grower schemes.

3.1.3 Remove customs duty on gypsum of heading 2520.10.00 currently at 25 percent.

This measure is intended to remove customs duty on gypsum in recognition of the role of it plays in various sectors of our country especially in the manufacture of cement, ceramics, plaster of paris, school chalk and medicaments and . It is also used by farmers as an acid neutraliser for the soil.

3.1.4 Reduce excise duty on Heavy Fuel Oils of heading 2710.19.20 from 30 percent to 15 percent.

This measure is intended mitigate the cost of production as Heavy Fuel Oils are a major input in the mining and manufacturing sectors.

3.1.5 Remove customs duty on packaging materials (paper board) of subheadings 4811.59.00 and 4811.51.00 currently at 5 percent

This measure is intended mitigate the cost of production of packaging materials as it is one of the major costs in the manufacturing sector.

3.1.6 Remove duty on Gray fabric including loomstead specially imported for further processing in the textile industry of headings 5208.11.00, 5208.12.00, 5208.19.00, 5208.12.90, 5208.19.10, 5208.19.90, 513.19.00, 5513.29.00 and 5513.39.00 currently at 15 percent.

This measure is intended to reduce the cost of production in the textile and clothing sectors as Gray Cloth is a raw material used in the textile industry. This measure will also enhance the competitiveness of the sector.

3.1.7 Reduce customs duty on the following capital equipment:

- a) refrigerating or freezing equipment for cold rooms of heading 8418.69.10 from 25 percent to free;
- b) Fork lift trucks of headings 8427.10.00, 8427.20.00 and 8427.90.00 from 15 percent to free;
- c) Track laying bull dozers and angle dozers of heading 8429.11.00 and 8429.19.00 from 5 percent to free;
- d) Graders and Levellers of heading 8429.20.00; scrapers of heading 8429.30.00; tamping machines and road rollers of heading number 8429.40.00; mechanical front ended shovel loaders of heading of 8429.51.00 and 8429.52.00; pile drivers and pile extractors of heading 8430.10.00; snow blowers of heading 8430.20.00; self propelled coal or rock cutters and tunnelling machinery of headings 8430.31.00 and 8430.39.00; boring or sinking machinery of headings 8430.41.00, 8430.49.00, 8430.50.50; and tamping or compacting machinery of headings 8430.61.00 and 8430.69.00 from 5 percent to free.
- e) Survey equipment of heading 9015.10.00 from 25 percent, and of headings 9015.20.00, 9015.30.00, 9015.40.00, 9015.80.00, and 9015.90.00 from 15 percent to free.

This measure is intended to reduce the cost of doing business in Zambia by reducing the cost of importing these capital goods.

3.1.8 Remove duty on trucks (mechanical horses) of heading 8701.30.00 at 15 percent, 8701.90.10, 8701.90.90 and 8701.20.00 currently at 5 percent

This measure is intended to promote commercial transport services especially that Zambia's transport services are constrained by lack of a well developed rail network. The measure is also necessary to boost growth in cross border trade and reduce the cost of transport which is one of the major operating costs for business in Zambia.

3.1.9 Remove customs duty on special purpose motor vehicles of heading 8705.10.00, 8705.20.00, 8705.30.00, 8705.40.00, 8705.90.00 currently at 15 percent.

This measure is intended to reduce the cost of doing business in Zambia by removing duty on specialised motor vehicles such as fire fighting vehicles, crane lorries, concrete mixer lorries, mobile drilling derricks.

3.1.10 Remove duty on those aircrafts of heading 8802.20.00, 8802.30.00, 8802.40.00 and 8802.60.00 which are currently at 5 percent.

The measure is intended to encourage investment in the airline industry and encourage competitiveness in the tourism sector.

3.1.11 Amend the fourth Schedule to the Customs and Excise Act to exclude vehicles propelled by non pollutant energy sources from payment of carbon tax.

The measure is intended to exclude vehicles propelled by non pollutant energy sources from payment of carbon tax.

3.1.12 Remove customs duty on copper powder, copper flakes and copper blisters currently at 15 percent.

This measure is aimed at encouraging the utilisation of the expanding smelting capacity in the country. In order to adequately utilise the local smelters, mining companies will have to import these products from neighbouring countries.

3.2 COMPENSATING MEASURES

3.2.1 Increase export duty on cotton seed of heading 1207.20.00 and 5201.00.00 from 15 percent to 20 percent.

This measure is aimed at discouraging export of cotton seed in order to increase local value addition in view of the increased capacity to process it locally.

3.2.2 Increase customs duty on mobile cellular phones of heading 8517.12.00 from 5 percent to 15 percent.

This measure is aimed at encouraging local manufacture of mobile cellular phones.

3.3. HOUSEKEEPING MEASURES

3.3.1 Amend Regulation 88 of Statutory Instrument No. 54 of 2000, the Customs and Excise (General) Regulations to provide clarity on the treatment of third parties to a contract signed between government and an approved donor agency for a development project or technical assistance

This measure is intended to provide clarity on the treatment of goods and incidental services provided by third parties, who by law do not qualify to enjoy any tax relief. Exemptions under donor funded projects will be restricted to materials that are directly consumed by the project. However consumables such as fuels, spares, tyres and the like will not be eligible. This restriction will ensure that such third parties do not abuse this privilege intended for the principal donor(s).

3.3.2 Amend Statutory Instrument No. 60 of 1996 for Government Duty and VAT Funding Scheme for Schools, Hospitals, Churches and NGOs with a view to abolishing the voucher system and replace it with a direct rebate.

This measure is intended to simplify the administration process from the current centralized registration process through granting of direct rebates to these approved organisations and instituting control measures between ZRA and MoFNP in order to avoid abuse of the scheme by these organisations.

3.3.3 Increase the storage fee to be paid on goods placed in a customs ware house from K9,000 per tonne or 1000 kg or 1 cubic meter or 1000 litres per day, whichever is applicable, to K18,000.

This measure is intended to adjust the storage fees in order to make it commensurate with the cost of rendering warehousing services which are imperative in customs law enforcement.

3.3.4 Increase the fee for officers working beyond normal working hours at the request of an importer or exporter from K3,600 to K35,100 per hour.

This measure is intended to increase the fee payable to a customs officer who works beyond normal working hours at the request of a client to take account of the current approximate cost of rendering the service and align it with the overtime payable to operational staff at ZRA.

3.3.5 Increase the fee per kilometre travelled to and from locations beyond the distance of twenty kilometres, payable to ZRA by an importer or exporter requesting for services beyond normal working hours from K900 to K10, 800 per kilometre.

This measure is incidental to the request for services of an officer to work beyond normal working hours. The adjustment is intended to reflect the current approximate cost of rendering such service.

3.3.6 Amend Regulation 101 to revise the tax base for calculating duty drawback.

This measure is intended to introduce some control by amending Regulation 101 to allow for use of the lower of the declared values between the selling price and standard value when determining refundable amounts.

The usage of the lower value will serve as a control measure in ensuring that the coefficient established at the time of registration is applied and also give flexibility to exporters to revise their standard value which may arise out of changes in price on the export market.

3.3.7 Amend the Sixth Schedule to revise the tax base for calculating local excise duty.

This measure is intended to level the playing field between importers of the finished products and local producers of identical or similar products by ensuring that the tax base is not any higher than would apply at importation.

3.3.8 Amend Section 34 (d) to provide for both pre-payment and post assessment payment of import and export taxes.

This measure is intended to provide some flexibility on the requirement that payment be made within five days from the date of issue of an assessment notice and allow for receipt of revenue on both pre and post assessment of declarations. This will also mitigate challenges associated with congestions at the borders and facilitate legitimate trade across our borders.

3.3.9 Amend the Customs and Excise Act to provide for the writing off of bad debt.

This measure is intended to empower the Minister to write off uncollectible debt under the Customs and Excise Act that may arise due to debtors going into liquidation or bankruptcy or other factors beyond the control of the Authority and ensure that treasury accounts only reflect the correct position.

3.3.10 Amend the Customs and Excise Act to introduce a new section that provides for the valuation of services for purpose of excise duty determination.

This measure is intended to provide for a head of power in the valuation of services for purposes of excise duty determination.

3.3.11 Amend the definition of talk time to include all services derived from usage of mobile cellular telephone and subsequent provisions of the law.

This measure is intended to provide for a broad interpretation of talk time to include all services such as voice mail, multimedia service, and internet.

3.3.12 Delete provisions in the Customs law that make reference to the repealed Mines and Mineral Act.

The aim of this proposal is to align Regulation 96 in line with the current Mines and Mineral Act.

3.3.13 Amend the provisions of Statutory Instrument No 23 of 1994 (The Customs and Excise (Suspension) (Manufacturing Inputs) Regulations in order to simplify procedures for companies to qualify for duty suspension.

This measure is intended to increase the accessibility of all manufacturing firms to the scheme so as to promote manufacturing industries across all sectors in Zambia.

4.0 OTHER MEASURES

4.1 Incentives for developers of and investors in the MFEZ and industrial parks

In addition, to the tax incentives provided measures under the Zambia Development Agency Act for operators in the priority sectors or products, the following incentives shall apply to developers of and investors in the Multi Facility Economic Zones (MFEZ) and industrial parks:

- 1) Remove withholding tax on management fees, consultancy fees, interest re-payments and foreign contractors.**
- 2) Zero rate supplies to developers of MFEZ and industrial parks.**
- 3) Exempt foreign suppliers to the MFEZ and Industrial parks from reverse VAT charge.**
- 4) Exempt from customs and excise duty materials, equipment, machinery and accessories imported for the development of MFEZ and Industrial Parks.**

This measure is intended to enhance the expansion of the industrial base of the country and increase the competitive stance of Zambian firms in the region.