



ZAMBIA REVENUE AUTHORITY

DIRECT TAXES DIVISION

INCOME TAX (AMENDMENT) ACT 2004

PRACTICE NOTE NO. 2/2004

TURNOVER TAX

CONTENTS

	PAGE
1. GENERAL	3
2. INTRODUCTION	4
3. DEFINITIONS	5
4. WHO IS LIABLE TO PAY TURNOVER TAX	5
5. WHO IS NOT LIABLE TO PAY TURNOVER TAX	6
6. RESPONSIBILITIES OF TAXPAYERS	6
7. PROCEDURES	6
8. PAYMENT OF TURNOVER TAX	8
9. OFFENCES AND PENALTIES	9
10. RECOVERY AND PROCEEDINGS	9
11. OBJECTIONS AND APPEALS	9
12. OTHER MATTERS	9
13. ZAMBIA REVENUE AUTHORITY - DIRECT TAXES DIVISION OFFICES.	12

1.0 GENERAL

This **PRACTICE NOTICE** describes the provisions of Section 64A(2) introduced by the Income Tax (amendment) Act No of 2004.

The commentary is not exhaustive and does not, therefore affect any person's right of appeal on any point concerning their liability to tax, nor does it preclude any discretionary treatment which may be allowed under the act.

It is not an authoritative interpretation of the law and cannot be held to bind Zambia Revenue Authority in any particular case.

Inquiries may be made at the nearest office of the Zambia Revenue Authority Direct Taxes Division or at the Advice Centers in Lusaka and Kitwe.

Commissioner-General

2.0 INTRODUCTION

Section 64A(2) of the income tax act introduces a presumptive tax on businesses with annual turnover of K200 million or less at 3% and it is the final tax.

The introduction of this tax is intended to simplify the tax laws for small and medium businesses.

It will reduce the compliance cost for taxpayers, thereby encouraging more people to comply with the tax laws.

3.0 DEFINITIONS

In this Practice Note the following words and expressions will have the following meaning:

Business:

As defined under section 2 of the Income Tax Act and includes-

- (a) any profession, vocation or trade;
- (b) any adventure or concern in the nature of trade whether singular or otherwise;
- (c) manufacturing;
- (d) farming

Person:

As defined under section 2 of the Income Tax Act and includes any body of persons, corporate or otherwise, a corporation sole, local or like authority, a deceased estate, a bankrupt's estate and a trust, but does not include a partnership.

Turnover:

Turnover includes Gross -

- (a) earnings
- (b) income
- (c) revenue
- (d) takings
- (e) yield, and
- (f) proceeds

4.0 WHO IS LIABLE TO PAY TURNOVER TAX

4.1 Any person carrying on any business with an annual turnover of K200,000,000 or less.

4.2 Any person whose business earnings are subject to withholding tax and it is not the final tax, such as-

- rental income,
- commissions,
- interest earned by companies,
- royalties earned by residents, etc..

5.0 WHO IS NOT LIABLE TO PAY TURNOVER TAX

- 5.1 Any person carrying on any business with an annual turnover of more than K200,000,000.
- 5.2 Any individual or partnership carrying on business of public service vehicle for the carriage of persons.
- 5.3 Partnerships carrying on any business irrespective of whether the annual turnover is K200,000,000 or less.
- 5.4 Partners' income from the partnerships is also excluded from Turnover Tax. This is because it is the partnership that carries on business and not the partners. Partners are distinct from the firm (partnership) as stipulated by Section 4 of the Partnership Act of 1890.
- 5.4 Any person whose business earnings are subject to withholding tax and it is the final tax, such as-
- Bank interest for individuals
 - Dividends
 - Interest on Government Bonds
 - Interest earned on Treasury Bills for Charitable Institutions and other exempt persons.
 - Management and Consultancy fees paid to non-residents.
 - Payments made to non-resident Contractors
 - Public entertainment Fees paid to non-residents.
 - Royalties paid to non-residents, etc.

6.0 RESPONSIBILITIES OF TAXPAYERS

Taxpayers will be required to keep all business records pertaining to turnover.

They are also encouraged to keep other business records for purposes of determining their tax liability in case they exceed the threshold.

7.0 PROCEDURES

7.1 Registration

Taxpayers will be required to notify the Commissioner General within 30 days of commencement of business. They will be registered and given a Taxpayer Identification Number (TPIN), Individual or company account number and a Pay As You Earn (PAYE) scheme number where applicable.

7.2 Notices

7.2.1 New taxpayer

A new taxpayer will be required to register as stated above and they will use their estimated turnover on the ITF 75 or Company Questionnaire to determine whether they will pay turnover tax or Income tax.

7.2.2 Existing taxpayers

Existing taxpayers whose annual business turnover is K200,000,000 or less, are not required to re-register for turnover tax. They will be sent a notification by the Commissioner-General.

7.2.3 Cessation of business

If a taxpayer closes down his business due to any reasons, such as business failure, bankruptcy, winding up, etc, they are required to notify the Commissioner General immediately of such cessation.

7.3 Provisional Tax

Taxpayers under the turnover tax threshold will not be required to submit Provisional Income Tax Returns, as they will be expected to make monthly or quarterly remittances through the Monthly Turnover Tax Remittance Card.

Where a taxpayer whose turnover is below the threshold discovers during the year that his annual turnover will exceed K200,000,000 he shall notify the Commissioner-General immediately. However he shall continue to pay turnover tax till the end of that particular charge year. He shall be assessed under income tax system

When a taxpayer who has been paying provisional income tax discovers during the year that his annual turnover will not exceed K200,000,000 he shall notify the Commissioner-General immediately. However he shall continue to pay provisional income tax till the end of that particular charge year and shall be assessed under turnover tax system.

At the end of the year, the taxpayer will be required to submit an Income Tax Return and a set of accounts with supporting documents covering the whole year.

Any change from Turnover Tax to Income Tax and vice versa shall take effect only at the beginning of a charge year. No change will be effected during the charge year.

7.4 Forms to be used

The taxpayer is required to complete the prescribed Turnover Tax Remittance Card in triplicate and use it at all times when making a payment.

The Turnover Tax Remittance Card will have the taxpayer details, the monthly turnover and the tax payable.

7.5 Month-end Procedure

At the month-end a taxpayer is required to add-up his turnover for the month, compute the turnover tax and remit the tax due by the 14th of the following month.

7.6 Year-end Procedure

Taxpayers who would have suffered withholding tax deductions during the year shall be refunded upon submission of withholding tax certificates at the end of the charge year.

The refund will be determined through the standard assessment issued by the Commissioner-General at the end of the charge year.

Further more, where no declaration is received, the Commissioner-General may issue a standard assessment at the maximum rate of 3% of K200,000,000

8.0 PAYMENT OF TURNOVER TAX

For purposes of easing taxpayers' cash flow, taxpayers shall be expected to pay the turnover tax on a monthly basis.

However, taxpayers shall have an option to pay on a quarterly basis provided the Commissioner-General is given prior notice in writing.

Turnover tax shall fall due and payable on the 14th of the following month for monthly payments and 14th of the quarter end.

Any change from monthly payment of Turnover Tax to quarterly payment and vice versa shall take effect only at the beginning of a charge year. No change will be effected during the charge year.

9.0 OFFENCES AND PENALTIES

Taxpayers who submit an incorrect Turnover Tax Remittance Card(s) shall be charged penalties in accordance with Section 100 of the Income Tax Act.

Where the Commissioner-General issues a standard assessment, taxpayers who fail to pay the turnover tax shall be charged penalties under Section 78.

Any other offences committed shall be dealt with in accordance with the provisions of the Income Tax Act.

10.0 RECOVERY AND PROCEEDINGS

The recovery of turnover tax will be as provided for in the Income Tax Act. The methods of recovery shall include:

- (i) recovery by distress
- (ii) recovery through court
- (iii) charge on land, etc

11.0 OBJECTIONS AND APPEALS

The taxpayer has a right to object and appeal against the standard assessment as provided for in the Income Tax Act.

Further a taxpayer can object and appeal against the Commissioner-General's determination.

12.0 OTHER MATTERS

12.1 TREATMENT OF LOSSES

Losses will be allowed to be carried forward and utilised in the year when the turnover exceeds the threshold and Income Tax begins to apply. but the five year restriction as per section 30(2)(ii) will apply.

Under no circumstances will a loss be off set against the turnover.

Illustration:

Mr. X has a tax loss of K10,000,000 in the year 2003/04. In the year 2004/05 he has a turnover of K100,000,000 and is therefore liable to turnover tax.

In this example, Mr. X shall not utilize the loss brought forward of K10,000,000 in 2004/05 because the loss can not be setoff against turnover. Mr. X will only be required to pay the turnover tax of K3,000,000.

In the year 2005/06 Mr. X has a turnover of K300,000,000 and therefore is above the turnover tax threshold. In the same year he makes a taxable profit of K15,000,000.

In the year 2005/06 the loss brought forward from the year 2003/04 will be offset against the taxable profit of K15,000,000.

However, the year 2005/06 will be considered as the third year of carrying forward the loss.

12.2 TREATMENT OF CAPITAL ALLOWANCES

Capital allowances will be deemed to have been granted in the year that a taxpayer is liable to turnover tax.

Illustration:

Mr. X buys a car at K20,000,000 in the year 2003/04 when his turnover is K500,000,000. Capital allowances for 2003/04 charge year will be computed as follows:

<u>2003/04</u>	
Cost	20,000,000
W & T	5,000,000
ITV c/f	15,000,000

In the year 2004/05 his turnover is K150,000,000. Capital allowances for 2004/05 charge year will be computed as follows:

<u>2004/05</u>	
ITV b/f	15,000,000
W & T	5,000,000
ITV c/f	10,000,000

This calculation is for purposes of determining Income Tax value (ITV) only. No capital allowances shall be granted in this year against the turnover.

In the year 2005/06 his turnover is K700,000,000. -Capital allowances for 2005/06 charge year will be computed as follows:

<u>2005/06</u>	
ITV b/f	10,000,000
W & T	5,000,000
ITV c/f	5,000,000

In the year 2006/07 his turnover is K750,000,000. Capital allowances for 2006/07 charge year will be computed as follows:

<u>2006/07</u>	
ITV b/f	5,000,000
W & T	5,000,000
ITV c/f	Nil

12.3 TREATMENT OF PERSONS WITH TAX INCENTIVES

- (i) Enterprises registered under the Small Enterprises Development Act (SEDB)

Persons registered under SEDB will continue to enjoy the tax incentives granted under the SEDB Act.

Example:

Mr. Mbali has been granted tax exemption under SEDB Act for three charge years, i.e. 2004/05, 2005/06 and 2006/07. Mr. Mbali's turnover in all the three charge years is below K200,000,000. In these years he shall not pay turnover tax

- (ii) Persons carrying on the business of Tourism, Farming, Export of non-traditional products, and Chemical manufacture of fertilizer

Persons carrying on the businesses mentioned above will pay turnover tax in the year that the turnover is K200 million and below and will not enjoy any incentives in that particular year.

However, these businesses shall continue to enjoy their respective incentives once the turnover is above the K200 million threshold.

13.0 DIRECT TAXES CONTACT ADDRESSES:

If you have any problems concerning your taxes, please contact the Advice Centres or your nearest Direct Tax Office at the following addresses:

1. Advice Centre
2nd Floor Revenue House
Private Bag W136
LUSAKA
Tel: 226227/236227
Fax 222717
2. Assistant Commissioner
Lusaka "A" Tax Office
P.O. Box 31926
LUSAKA
Tel: 221497
3. Assistant Commissioner
Lusaka "B" Tax Office
P.O. Box 31936
LUSAKA
Tel: 221496
4. Assistant Commissioner
Lusaka "C" Tax Office
P.O. Box 31988
LUSAKA
Telefax: 01-236892
5. Assistant Commissioner
Ndola Tax Office
P.O. Box 70181
NDOLA
Tel: 02-614694
Fax: 02-614096
6. Assistant Commissioner
Kitwe Tax Office
P.O. Box 20855
KITWE
Tel: 02-230362
Fax:02-229942
7. Assistant Commissioner
Lusaka Taxes Central Unit
P.O Box 35710
LUSAKA
Telefax: 01-224935
Fax: 01- 224935
8. Assistant Commissioner
Direct Taxes Inv. Unit
P.O. Box 35710
LUSAKA
Telefax: 01-235252
9. Assistant Commissioner
Coordination and International
P.O Box 35710
LUSAKA
Telefax: 01-221493
10. Senior Inspector
Kabwe Tax Office
P.O. Box 80909
KABWE
Telefax: 05-223642

11. Senior Inspector
Chipata Tax Office
P.O. Box 510632
CHIPATA
Telefax: 062- 21155
12. Senior Inspector
Mongu Tax Office
P.O. Box 910110
MONGU
Telefax: 07-221380
13. Senior Inspector
Kasama Tax Office
P.O. Box 410728
KASAMA
Telefax: 04- 221810
14. Senior Inspector
Mansa Tax Office
P.O. Box 710112
MANSA
Telefax: 02-821333
15. Senior Inspector
Solwezi Tax Office
P.O. Box 110368
SOLWEZI
Telefax: 08-821682
16. Senior Inspector
Livingstone Tax Office
P.O. Box 60597
LIVINGSTONE
Telefax: 03-320772
Tel: 03- 320411/16
17. Advice Centre
Nchanga House
P.O Box 20454
Kitwe
Telefax: 02-229301

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