

Minimum  
Taxable  
value



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# MINIMUM TAXABLE VALUE



## 1. Introduction

This scheme prescribes a **minimum** value for Value Added Tax (VAT) purposes on sales or imports of specified goods. Under the scheme, all VAT registered businesses making sales of the specified goods are required to charge VAT on them on the higher of the value ascertained in accordance with section *ten* (10) of the VAT Act or the recommended retail selling price of the goods.

This measure was announced by the Minister of Finance in his 1997 Budget Speech, and was legislated under Section 2 of the VAT Act by The Value Added Tax (Amendment) Act, No. 2 of 1997. The measure was amended by the Value Added Tax (Taxable Value) Regulations, 2007 (Statutory Instrument No. 19 of 2007) to remove the requirement to issue a Statutory Instrument every time there is a change in the selling prices of the prescribed goods.

## 2. VAT CHARGEABLE ON MINIMUM TAXABLE VALUES OF SPECIFIED SUPPLIES

The scheme is intended to simplify the collection of VAT on the specified goods and lessen the incentive for tax fraud in the affected sectors. The minimum taxable value applies to sales between wholesalers or from importers to distributors as well as by manufacturers or distributors to retail outlets (including bars, taverns, retail outlets etc.)

## 3. THE SPECIFIED SUPPLIES

The list of specified supplies now stands as follows

1. Bulk and bagged cement (local and imported)
2. Carbonated drinks (local and imported)
3. Non-carbonated drinks (local and imported)
4. Maheu products
5. Clear beer (local and imported, bottled and canned)
6. Opaque beer (bulk and packed)
7. Cigarettes (local and imported)
8. Cell phone talk time (scratch cards)
9. Mineral water (local and imported)

a. VAT is chargeable on sales and imports of the specified supplies on the greater of:

- the actual price charged (or for imports the value for VAT purposes) or;
- the minimum value based on recommended retail prices of the specified supplies

### b. Examples

#### i) Wholesale Price At The Prescribed Minimum Taxable Value

A bottle of Mosi beer (375 ml) has a wholesale price of K3, 500.00 (K2, 978.72 + K521.28 VAT) and a recommended retail price of K4, 500.00 (K3, 829.79 + K670.21 VAT). Under this regulation, the VAT on the minimum prescribed taxable value of Mosi beer has to be charged at all the stages in the supply chain unless the selling price is more than the recommended price of K4, 500.00: -

Wholesale price (excluding VAT) - **K2,978.72**  
VAT calculated on prescribed minimum Taxable Value for Mosi beer (375ml) - **K 670.21**  
Selling Price by the manufacturer - **K 3,648.93**

#### ii) Retail Price Above The Recommended Price

If the next VAT Registered supplier in the chain supplies the goods at a price exceeding the minimum taxable value, then VAT must be applied on the actual price charged, and the input tax/ Output tax credit mechanism would take care of the additional tax e.g.

(a) The selling price for distributor A who is VAT registered is K5, 000.00 the VAT would be calculated as follows:  
Selling Price (Inclusive of VAT) - **K 5,000.00**  
VAT (K5, 000.00 x 7/47) - **K 744.68**

Distributor A will claim K 670.21 as input tax and declare K744.68 as output tax.

b) Hotel B which is also VAT registered bought Mosi from distributor A and sold the beer for K6, 000.00 and thus his Output VAT will be K893.62 and Input VAT will be K744.68

## 4. MINIMUM TAXABLE VALUES

The minimum taxable values of specified goods must be revised from time to time to reflect price changes on the market. Effective 10 February 2007 the Minister of Finance and National Planning will no longer issue Statutory Instruments of Minimum Taxable Values of the specified supplies as was the case previously.

Registered suppliers are advised to adjust their recommended retail prices every time there is an adjustment in the prices of the specified supplies.

