

PRESUMPTIVE TAX –

Bus, Mini – bus, and Taxi operators.

2012 Edition

What is Presumptive Tax?

These are estimates of tax payable that are used in dealing with incomes or activities that are hard to tax, e.g. the informal sector.

Presumptive taxation offers the possibility of reducing tax evasion at low cost and broadening the revenue base.

Why Presumptive Tax on Bus, Mini-bus and Taxi operators?

Most of the transport businesses in Zambia fall under the informal sector. The informal sector, world over, is difficult to tax because:

- Governments lack a comprehensive list of these potential taxpayers;
- The administrative cost of dealing with a sea of returns from these small taxpayers, are extremely high;
- The informal sector businesses keep poor records and books of accounts.

Over the years, many of our taxpayers operating mini buses and taxis have complained that they find it difficult to comply with our requirements for the following reasons:

Complicated tax procedures:

Most transporters find it difficult to remember and comply with all their obligations under the Income Tax Act, which include;

- a) Filing returns and accounts by 30th June, every year;
- b) Filing Provisional Tax returns by 31st March of the charge year to which the return relates
- c) Paying Provisional Tax by the 14th of the month following the end of every quarter;
- d) Settling any penalties and interest where applicable;
- e) Keeping up-to-date business records at all times, etc.

1. Low levels of tax literacy:

A good number of the operators know very little about tax and some of them say they are not literate enough to understand taxation or prepare business records.

2. High cost of hiring professional accountants to prepare accounts and handle tax matters:

Whereas professional accounting firms are ever ready to handle all financial and tax matters of business entities, most operators

feel they cannot afford the high fees charged by these consultants.

3. Liquidity (cash-flow) problems:

Some operators have expressed difficulty in settling the assessed tax, or provisional taxes that they are asked to pay, because the amounts appear to be large and they are not able to maintain bank savings as the daily takings are quickly disbursed to meet numerous expenses.

5. Constant breakdowns:

A common complaint from operators is that their vehicles are down for a good portion of the year and hence they disagree with the amounts assessed on them, especially where they did not send returns and accounts (estimated assessments).

The above have compelled the Zambia Revenue Authority to seek to tax this group of taxpayers differently, hence presumptive tax. The main objective of this measure is to increase compliance by simplifying our tax process and ultimately reducing the transporter's compliance cost.

What are the benefits of this tax over the regular assessed system?

1. Simplified Process:

- a) No more filing of returns.
- b) No need for elaborate business records.
- c) Predictable amount of tax to be paid hence eased planning.

2. Cash – flow friendly:

Since operators find it fairly easy to pay a whole range of fees on daily basis, such as loading fees, e.t.c (some out of extortion), and because the amounts do not seriously disrupt their cash – flow position, the same principle of small regular payments of tax has been adopted in the presumptive tax approach.

The levies can be broken down into smaller amounts to be paid more regularly, e.g. the K1,200,000 levy for a 17 seater bus works out to K100, 000 a month or K 300,000 a quarter.

3. No need for professional consultancy services:

Paying the levies will be straight forward as paying loading fees or other fees currently in place. Hence very little intellectual or professional effort required.

4. Equity:

As the system is made simpler, all transporters will be expected to pay their part hence no “free riders” as is currently the case.

5. Allowance for break – down:

The levies will only be charged for vehicles that are on the road during the accountable period.

What are the modalities for collecting this tax?

As noted earlier, ZRA’s strategy has been to identify a suitable strategic partner on whom the Commissioner General has conferred the right to collect the presumptive tax on behalf of ZRA (and ultimately on behalf of the government).

The agent collects the levies on behalf of ZRA and **remits** the monies regularly. The amounts of levies are broken down into manageable amounts to be paid on a daily basis.

The Agent issues a prescribed ZRA ticket/receipt to the transporter upon collection of the levy

Should we expect increases in bus fares as a result of this presumptive tax?

Some transporters have expressed views that fare increases will be inevitable with the introduction of presumptive tax and that the transport industry may collapse.

These views are based on two misconceptions:

a) That the Presumptive Tax is in addition to the existing tax.

It should rather be noted that Presumptive Tax actually replaces the assessed tax system that is applied to all other businesses.

b) That the levies will be higher than what is paid under the assessment system.

To the contrary, the levies are actually designed to be lower than what would actually be due if the regular system is followed. The expected revenue gain is purely based on the assumption that the tax base will be broadened through the system.

Does ZRA still audit taxpayer’s business records under the Presumptive Tax System?

As Presumptive Tax is a levy, there will no longer be need to keep records for tax purposes and as such no audits will be conducted on a transporter’s business. The only requirement will be for the transporter to pay his presumptive tax as stated in the law.

Are all operators of buses, minibuses or taxis liable to pay presumptive tax?

Presumptive tax has been introduced with the exemption of limited companies. Therefore, only individuals and partnerships are included.

This is because from the ZRA perspective, compliance is not a big problem with transporters in this category, as they have the capacity to comply fully with all the standard requirements under the Income Tax Law.

Consequently, **“luxury and semi – luxury coaches”** are excluded. This is because most of them are, as a matter of fact, incorporated businesses and they submit returns and accounts regularly. Where necessary, audits by the tax office are carried out to verify the amounts in the accounts and returns.

How much will each category of vehicle be charged?

The Income Tax (Amendment) Act 2003 introduced the following rates for Presumptive tax:

Type of vehicle (sitting capacity)	Amount of tax per vehicle (per annum)
64 seater and above	K7, 200, 000
50 – 63 seater	K6, 000, 000
36 – 49 seater	K4, 800, 000
22 – 35 seater	K3, 600, 000
18 – 21 seater	K2, 400, 000
12 – 17 seater	K1, 200, 000
Above 12 seater (including Taxis)	K 600, 000

To further make the amounts more affordable, the following seven categories of daily tickets have been provided for.

Category**Amount on Ticket (per month)**

Below 12 seater (including taxis)	K 1, 600
12 – 17 seater	K 3, 300
18 – 21 seater	K 6, 600
22 – 35 seater	K10, 000
36 – 49 seater	K13, 000
50 – 63 seater	K16, 400
64 seater	K19, 700