

# **ZAMBIA REVENUE AUTHORITY**

## **RENTAL INCOME**

## **INTRODUCTION**

This leaflet is to provide information for both the landlords and tenants on issues pertaining to the taxation of Rental Income. However, the information and explanations given here are for general guidance only and should not be taken as authoritative interpretation of provisions of the Income Tax Act.

### **1. What is Rental Income?**

Rental income is simply income derived from the letting of real property, i.e. rent. The Income Tax Act defines “rent” as “ a payment in any form, including a fine, premium or any like amount, made as a consideration or occupation of or the right to use or occupy any real property directly connected with the use or occupation of or the right to use or occupy such real property.”

### **2. How is rental income taxed?**

The “gross rent” (i.e. before deducting withholding tax) is reduced by allowable deductions such as repairs, house insurance, rates, mortgage interest, etc and the balance is added together with any other income of the taxpayer and subjected to tax.

### **3. Will I be required to pay further tax if I “net of tax” rent?**

Yes. Many landlords regard the net rent received after deducting withholding tax (WHT) as the “net of tax” rent. This is a fallacy because WHT on rent is not a final tax. At the end of the year, the taxpayer will be required to submit a return containing all sources of his income including rental income. The final tax will only be determined through an assessment.

### **4. Will tax be calculated on my “net of tax” rent in the assessment?**

No. The net rent received will be grossed up in order to arrive at gross rent. If withholding tax was not deducted and remitted to ZRA, no credit will be granted for WHT in the assessment. That means the landlord would be required to pay more tax than otherwise would have been due if withholding tax was deducted.

### **5. What is the rate of WHT?**

The rate of WHT on rental income tax is 15% of the gross rent.

### **6. Who pays WHT, the tenant or the landlord?**

The responsibility of deducting and remitting WHT to ZRA is borne by the tenant. There are severe penalties under the provisions of the Income Tax Act (as amended) for contravening or failing to comply with such requirements. Any person guilty of such an offence may be liable to a fine not exceeding One Million Kwacha or imprisonment for a term not exceeding 12 months, or to both.

However, the incidence of tax if WHT is not deducted and remitted to ZRA falls on the landlord since the tenant only deducts and remits the tax on behalf of the landlord.

Therefore, it is the landlord who actually pays withholding tax in the end.

**7. Is rental income also subject to VAT?**

Domestic rent does not attract Value Added Tax (VAT). However, income derived from letting of business property is subject to VAT. Concerned taxpayers should contact any of our VAT offices for advice.

**8. Is provisional tax payable if you are in receipt of rental income?**

Yes. Provisional tax is payable by any person (other than an employee whose income consists solely of emoluments subject to PAYE) who is in receipt of rental income (plus income from other sources) and the amount for the year is above K200Million. Contact the nearest Tax Office for advice on how you can calculate the provisional tax due on your rental income and remit the same to ZRA.

**9. As a tenant what will the officers from Real estate survey require from me?**

The officers will basically require the following information or documents:

- a) The name and address of the landlord.
- b) The date when the property was first occupied by the tenant
- c) The amount of gross rent payable to the landlord since first occupation of the property
- d) Details regarding the deduction and remittance of WHT to ZRA
- e) Copies of the certificates of WHT deducted, if any.

**10. What information would be required from the landlord?**

The information required from the landlord include the following:

- a) His full names, postal and residential addresses
- b) The number of real properties he owns and their locations
- c) The dates when rental income was first received in respect of each property let out
- d) The amount of gross rent received each year from each property
- e) Whether or not withholding tax is deducted from the rent received
- f) Whether or not the taxpayer has a file at ZRA
- g) If the taxpayer is registered with ZRA, there would be need to find out whether or not his tax affairs are up to date – i.e. annual returns, provisional returns, tax payments etc.