

- iv) Issuing of a tax invoice for work /payments not covered by (a), (b), and (c) above also creates a tax point.

## 6. SPECIAL CASES

### i. Construction of Domestic Building

The Exemption of "Sale or Lease of Dwelling Houses" does not cover the provision of construction services for building or renovating dwelling houses. The provision of construction services for dwelling houses or commercial buildings is a standard rated supply.

However, it is important to note that the 25% Customs Duty on prefabricated buildings has been removed up to 31<sup>st</sup> December 2025. And at the same time, the surtax on the imported floor and wall tiles has been increased to 20% from 5%

### ii. Zero-Rated Construction Services

Construction services supplied to the following persons or groups of persons are zero-rated, subject to conditions provided in Group 2 of the Value Added Tax Zero-Rating Order.

- i. Goods and services supplied to or imported by a special purpose vehicle during the construction period.
- ii. The supply of services to a donor in Zambia for the official purposes of that donor
- iii. Services supplied under a technical aid programme or project which are:
  - (a) Paid for through donor funding or funding from the Government where the programme or project is co-financed by the donor and the Government and
  - (b) Provided by the donor or by a contractor of the donor, under a written agreement with the Government of the Republic of Zambia.
- iv. Services supplied under a technical aid agreement or project providing for exemption from Zambian taxation which is either:

- (a) dated on or before 30<sup>th</sup> June, 1996; or
- (b) approved by the Minister of Finance.

In the 2023 budget pronouncements, the minister included PPP construction projects and removed customs duty and made exempt from VAT at importation plant machinery and equipment for use in the project.

- v. Goods or services supplied to or imported by a developer for the purposes of developing infrastructure in a multi-facility economic zone or industrial park.

## 7. CLAIMABLE INPUT TAX

VAT incurred on business purchases can be claimed by VAT-registered suppliers if they are in possession of a valid tax invoice. Examples of purchases on which VAT can or cannot be reclaimed are:

CLAIMABLE (N.B. Only if for use in the business the taxpayer is registered for)	NOT CLAIMABLE
Building materials	Purchase of saloon cars,
Sub-contractor costs	Plant and equipment
	station wagons and twin cabs
Electricity charges	Telephone charges
Legal and accounting fees	Business entertainment

## 8. REMINDERS

- i. VAT-registered suppliers are required to submit returns and pay VAT to the Zambia Revenue Authority on or before the 18<sup>th</sup> day of the month after each tax period. Payment must be made by either online payment or bank transfers. The case may be different for taxpayers that are on a cash accounting basis.
- ii. Late submission of returns attracts an automatic penalty of 1,000 penalty units (K300), or 0.5% of the tax due; whichever is higher for each day that the return is late. Non-payment of VAT attracts an automatic penalty of 0.5% of the tax due for each day that VAT remains unpaid and the amount outstanding will attract interest at the Bank of Zambia rate plus 2%.

**Note:** A penalty unit is equivalent to K0.30



# A GUIDE FOR THE CONSTRUCTION INDUSTRY

## 1. INTRODUCTION

This leaflet is intended to provide information on how Value Added Tax (VAT) applies to the construction industry. The services made in the construction industry are normally made over a long period of time, in some cases, covering several tax periods, which makes it difficult to determine the tax point and the taxable value. Further, because of the complexity of the nature of the industry, it is imperative to read the VAT Act, VAT Guide and VAT Liability Guide for more information.

## 2. CONTRACT-BASED NATURE OF THE INDUSTRY

The construction industry is largely contract based and comprises many players such as building contractors, road contractors and sub-contractors. This implies that the business in the industry is governed by various kinds of contracts which specifically outline all the terms and may include the following things:

- Frequency of certificate of valuation and terms of payments
- Advance payments
- Payments towards the Certificate of Valuation; and
- Retention.

There are formally two types of contracts, and these are:

- Fixed Price Contracts** - The price of the contract is fixed but provisions for fluctuations and variations are made.
- Cost Plus Contract**- Purchase price of materials and other expenses incurred by the contractor are reimbursed by the client and the contract includes a percentage for profit.

## 3. DEFINITIONS OF KEY TERMS IN THE INDUSTRY

- Bill of Quantities** - A report prepared by an independent quantity surveyor specifying list of materials to be used with quantity and price estimates. The bill of quantities serves as a Performance standard for evaluation of the quality of work performed.
- Preliminary and General** - Cost of setting up

and maintaining a **Items** Project site e.g. material storage facilities

- Measured Work** - This is the work done in respect of quantities and costs specified in the bill of quantities.
- Variations and Extra** - This is the work done on the project but was not **Works** originally included in the bill of quantities.
- Materials On/ Off Site** - The cost incurred for all materials for the project.
- Retention** - The client withholds a certain percentage of the contract sum (usually 10%) as security and this money is only paid after the practical completion of the project or after the expiry of the defect liability period.
- Advance** - Normally an advance payment is made to the contractor before the work commences. Advance payments should be treated as part of part of the taxable value at each stage when such payments are made.
- Fluctuations** - These take into account changes in prices of materials and wage rates.
- Amounts Previously** - This amount is the sum of all amounts certified in previous stages to date.

## 4. TAXABLE VALUE

Since projects may cover more than one tax period, at times extending over a number of years, certificates are issued in the interim according to the frequency stipulated in the contract. The certificates are based on the percentage of completed work and VAT is calculated on the certified value of the portion of work completed at each stage.

### ILLUSTRATION

	Amount (K)
Preliminary and General Items	20,000
Measured Works	100,000
Variations and Extra Work	30,000
Materials On/ Off Site	20,000
Sub-total	<b>170,000</b>

**Add:** Advances 50,000

Fluctuations	60,000	110,000
		280,000
<b>Less:</b> Retention @ 5%		14,000
Amount previously certified (VAT inclusive)	120,000	134,000
Value of Completed Portion of Work (Taxable Value)		146,000
VAT@ 16%		23,360
Amount Due on the Completed Portion of Work		<b>169,360</b>

## 5. TAX POINT

The tax point is the time when goods or services are considered to be supplied for VAT purposes. In the case of services, it is the earliest of the following:

- the time when payment for the supply is received
- the time when a tax invoice is issued; or
- the time when services are actually rendered or performed.

In practice, the sequence of events in the building industry is likely to be:

- Interim certificates are issued and payment made on the amount involved, creating a tax point and a tax liability for the amount involved.
- Any part payments, including interim or advance payments also create tax points.
- Completion of the building services - The tax point in this case will be the date of issue of a completion certificate, which then creates the tax point for any remaining payments due. The practice of issuing a tax invoice and /or accounting for output tax only when the final contract payment is due or made contravenes the provision of the VAT Act with respect to when VAT is due.

The only exception would arise when a business is authorised to use payment basis in which case the tax is only due when payments are made for certified or completed works (Cash Accounting).