business can be claimed.

c) Business Entertainment

Input tax may not be claimed on business entertainment. Business entertainment includes the provision of food, beverage, entertainment, amusement, recreation or hospitality of any kind and any incidental transportation provided to any person by a taxable supplier whether directly or indirectly, in connection with a business carried on by a taxable supplier.

d) Input Tax incurred for the Benefit of Directors, Employees Etc.

VAT incurred on any food, beverages, transportation or hospitality of any kind, or goods or services provided for directors, managers, partners, proprietors, employees, customers or potential customers cannot be claimed. Some examples include VAT on furniture, electricity bills, or a house rented by a business for the benefit of directors, employees etc.

e) Input Tax must relate to taxable supplies.

Purchases or business expenses on which VAT input credit is claimed must relate to taxable and not exempt supplies. Businesses that deal only in exempt supplies are not eligible to register for VAT and therefore have no opportunity to claim input tax.

Businesses that deal partly in exempt supplies and partly in taxable supplies are **Partially Exempt** businesses. **Partially exempt** businesses are not allowed to claim all their input tax except the portion relating to taxable supplies.

Inputs that clearly relate to either taxable or exempt supplies are called **directly attributable inputs,** while inputs which are not directly related to taxable supplies are called **non-attributable** inputs; e.g. overheads which cover all the supplies of the business.

Special methods are available to assist partial exempt businesses to calculate the amount of input tax that may be claimed and all partially exempt businesses must adopt one of the methods

f) Input tax not allowed on construction of dwelling houses for staff

The tax charged on the supplies used in the construction of dwelling houses for staff is excluded from any claim, deduction or credit as input tax except when such a supply is for the sale of a dwelling house by a person carrying on business of constructing dwelling houses for sale.

VAT charged on supplies used in the construction of dwelling houses for staff is excluded from any claim or deduction. On the other hand, tax charged on supplies used in the construction of dwelling houses for sale is allowable for deduction or claim.

g) Input Tax incurred on electricity expenses

Input tax claims by mining and mineral processing companies on electricity are limited to 80%.

h) Input tax incurred on goods lost in the course of business

A taxable supplier whose goods on which input tax was claimed and are eventually lost in the course of or furtherance of the business, shall refund the input tax so deducted to the Commissioner General.

Goods are lost in the furtherance of the business if they are expired, stolen, damaged or destroyed beyond use.

i) Commission Charged by Tax agent

VAT charged on the commission received by a tax agent from a foreign supplier is not claimable.

j) Late registration

Input tax incurred by a supplier who is eligible for VAT registration but fails to register as required by law and is subsequently assessed and registered, is not claimable

ZAMBIA REVENUE AUTHORITY

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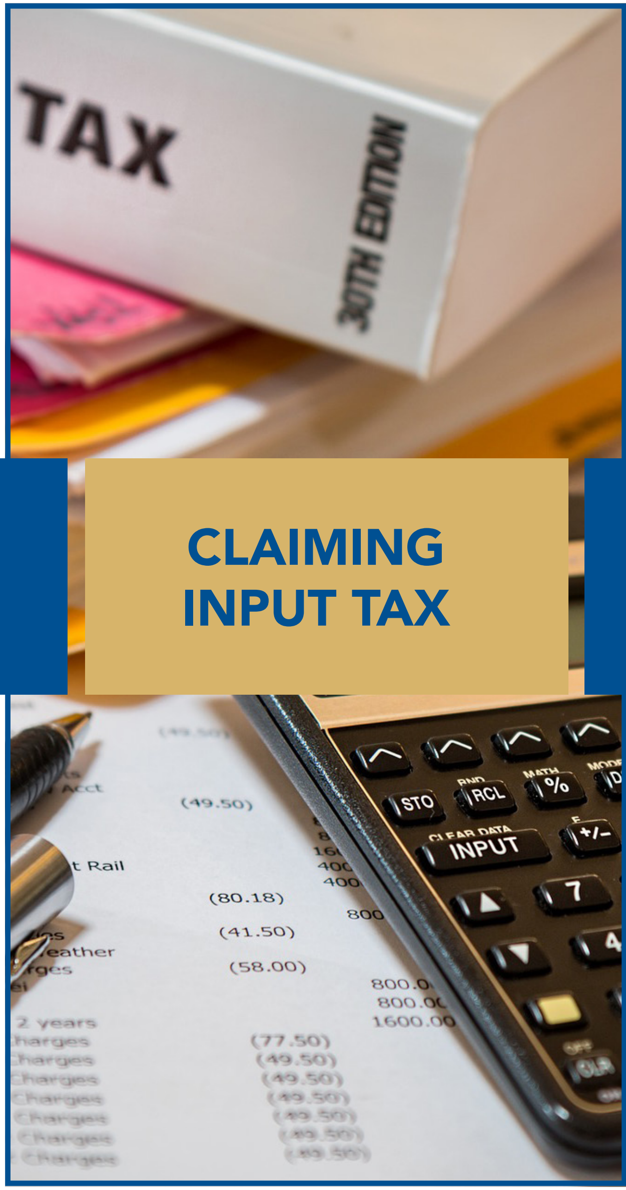

CLAIMING INPUT TAX

Introduction

Value Added Tax is a tax levied, charged and collected on local and imported taxable supplies of goods and services. The nature of VAT allows for a registered taxable supplier to claim allowable input tax incurred during the furtherance of that supplier's business. This leaflet explains the process of claiming input tax on the VAT regime

1. What is a Value Added Tax refund?

A VAT refund is an amount of VAT that is payable by ZRA to a VAT-registered taxable supplier, where the total amount of VAT charged to the supplier on the acquisition of goods and services locally and by way of importation (input tax) exceeds the total amount of VAT charged on the supply of goods or services by the vendor (output tax), for a tax period.

2. Overview

The essential mechanism of VAT is as follows:

- For VAT purposes, the sale or disposal of goods, or the rendering of services is called **supplies.**
- When a business that is registered for VAT supplies goods or services, VAT is charged and collected by the business. The VAT on these supplies or sales is called **output tax.**
- When a business that is registered for VAT purchases goods or services, the VAT incurred on these **supplies received** or purchases is called **input tax.**
- At the end of each tax period, the VAT due is arrived at by deducting the total **input tax** on **supplies received (purchases)**, from the total **output tax** on supplies made (sales).
- Where the **output tax** exceeds the **input tax** for the period, the difference must be paid to ZRA.
  If the **input tax** exceeds the **output tax,** a VAT refund is due. The law provides that a refund should be paid within thirty (30) days after submission of the return (repayment return) in which that claim is made. However, if a taxable supplier has outstanding tax liabilities, the refund may be used to offset such liabilities.

3. Circumstances for a claim of VAT

The law provides some restrictions on what can be reclaimed. Some of the restrictions are highlighted below: -

a) Business Use/Private Use

The expenditure must be for the purposes of the business i.e. not for private use. Where Purchases are partly for business and partly for private use, only the business proportion can be reclaimed. For example, VAT incurred on maintenance and repairs of motor vehicles that are used for both personal and business purposes must be apportioned and only that part that directly relates to the business can be claimed.

b) Time Limit for claiming Input Tax

Input tax shall not be deducted or credited after a period of ninety days from the date of the relevant tax invoice or other evidence referred to in subsection (3) to the date of submitting the return, except in circumstances as the Commissioner-General may by rule, specify.

Supporting documents for claiming of input tax include Tax invoices, Credit Notes, Bank Statements and in the case of imports, payment Receipts and Bills of Entry.

5. Evidence for Claiming Input Tax

Any taxable supplier claiming input tax must be in possession of a valid tax invoice or for imported goods, Customs and Excise form CE 20, receipt and Release Order, showing the amount of VAT paid before any claim can be made. Photocopy documents are not acceptable.

6. Exceptions on the charging of VAT on Imported Goods

When goods are imported into Zambia (which includes removing them from an approved bonded warehouse), VAT, together with any import duties, is payable at importation to ZRA. VAT is chargeable on all imports except exempt goods. There are also some exemptions for imported goods that meet the criteria provided under the Customs and Excise (General) Regulations 2000 (as amended).

7. Specific Items on which Input Tax cannot be claimed: Non- Deductible Items

In addition to the general rules on input tax, there are also specific items on which VAT cannot be claimed.

a) Telephone and Internet Services

Generally, an input tax credit is not allowed on telephone bills and internet services. However, there are some exceptions as provided below: -

- Interconnection fees and other services provided between telephone or internet service providers;
- Telephone and/or internet services provided by a hotel, lodge and similar establishment to its clients if such an establishment accounts for output tax on the supply of the telephone service to its clients.

b) Motor Vehicles

Motor vehicles are defined as those that have side windows or a seat to the rear of the driver's seat. This restriction will therefore apply to saloon and estate cars, station wagons, and twin cabs. It will not usually apply to pick-up trucks and to other **commercial vehicles such as vans.**

The input tax credit is not allowed on motor vehicles. However, car dealers who buy cars:

- for resale;
- to be leased by leasing businesses or financial institutions engaged in leasing;
- for hire;

may claim input tax in the normal way.

Input tax on maintenance and repairs to motor vehicles, used solely for business purposes can be claimed. Where a motor vehicle is used partly for personal purposes e.g. to transport business executives, VAT incurred on vehicle maintenance and repairs must be apportioned and only that part which directly relates to the