



**ZAMBIA  
REVENUE  
AUTHORITY** | *Working  
To Serve You  
Efficiently*

## **PRACTICE NOTE NO. 1/2014**




*reduces the withholding tax on rental income to 10% and makes it a final tax;*

*increases PAYE exempt threshold to K36,000 per annum;*

*increases property transfer tax rate to 10%; and*

*standard rates tour packages.*





### Our Vision

*“To be a world class organisation recognized as a beacon of excellence in revenue administration”.*

### Our Mission

*“To optimise and sustain revenue collection through integrated, efficient, cost effective and transparent systems, professionally managed to meet the expectations of all stakeholders.”*

REVENUE  
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## 1.0 FOREWORD

This **PRACTICE NOTE** describes the various changes introduced by the –

- a) The Income Tax (Amendment) Act No. 18 of 2013;
- b) The Income Tax (Turnover Tax) Regulations 2013, S.I. No. 95 of 2013;
- c) The Property Transfer Tax (Amendment) Act No. 14 .of 2013;
- d) The Value Added Tax (Amendment) Act No. 15 of 2013;
- e) The Value Added Tax (Exemption) Order), S.I. No. 96 of 2013;
- f) The Value Added Tax (Zero Rating) Order, S.I. No. 97 of 2013; and
- g) The Value Added Tax (General) Rules).Gazette Notice No 46 of 2014.

The commentary is for general guidance only and is not to be taken as authority in any particular case. It is therefore not exhaustive and does not affect any person's right of appeal on any point concerning their liability to tax, nor does it preclude any discretionary treatment which may be allowed under the law.

Enquiries may be made through the National Call Centre of Zambia Revenue Authority, your nearest Client Service Centre or any Domestic Taxes Office.

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**COMMISSIONER-GENERAL**

## **PART I: SUMMARY OF AMENDMENTS**

### **2.0 THE INCOME TAX (AMENDMENT) ACT NO. 18 OF 2013**

<b>ITA Section</b>	<b>Subject</b>
1	Title and commencement
2	Introduces the following new definitions: <ul style="list-style-type: none"><li>(a) branch profits;</li><li>(b) industrial park;</li><li>(c) multi-facility economic zone;</li><li>(d) property loan stock company; and</li><li>(e) property linked unit.</li></ul>
21	Clarifies the taxation of income resulting from termination of services of an individual in an office or employment
46A	Aligns the threshold for the requirement to submit a provisional return with the Pay As You Earn exemption threshold provided for under the Charging Schedule.
48A	Introduces a provision to empower the Commissioner-General to access any type of information, held by Legal Practitioners, Accountants and Financial Institutions, required for tax purposes
63	Removes the requirement for the Commissioner-General to assess: <ul style="list-style-type: none"><li>(a) income from gaming, lotteries and betting; and</li><li>(b) income from the letting of property,</li></ul> from which withholding tax has been deducted.
78	Provides for penalties to be imposed from the date specified in a notice of assessment
79C	Introduces a requirement to register a Charge on land with the Commissioner of Lands.
82A	Introduces the requirement to deduct withholding tax on winnings from gaming, lotteries and betting.
95	Introduces further anti-avoidance provisions to empower the Commissioner-General to re-characterise transactions.
97A	Aligns the wording of the provision with international best practice on transfer pricing.
97C	Empowers the Minister of Finance to make regulations for transfer pricing methods, documentation rules and to impose penalties
First Schedule	
Para 8	Broadens the classification of income arising from share options.
10	Provides for the classification of income from gaming, betting and lottery winnings.

Second Schedule Para 5(2)	Includes the Millennium Challenge Account Zambia and any implementing entity appointed under the Millennium Challenge Compact Act, 2013 on the list of exempt organisations.
7	Abolishes exemptions granted to enterprises and companies under the Zambia Development Agency Act, No. of 11 2006.
Fifth Schedule Para 4A	Restricts the claim for improvement allowance to a person operating in a priority sector or in respect of a priority product in a multi-facility economic zone or industrial park.
Charging Schedule Para 2(1)(c)	Increases the income band taxable at zero percent for individuals to K36, 000 per annum.
2(1)(d)	Increases the income band taxable at twenty-five percent for individuals by K 9,600 per annum.
2(1)(e)	Reduces the income band taxable at thirty percent for individuals by K 9,600 per annum.
5(e)	Introduces income tax incentives for a rural business enterprise for a period of five years. Further, it restricts tax incentives to a business enterprise in a priority sector operating in a multi-facility economic zone or industrial park and limits the period of accessing the tax incentives to a period of five years.
5(f)	Introduces income tax incentives on dividends for rural business enterprises for a period of five years. Further, it restricts tax incentives on dividends to a business enterprise in a priority sector operating in a multi-facility economic zone or industrial park.
5(f)	Removes the provision for the Commissioner-General to withdraw tax incentives from an investor who fails or neglects to fulfil a pledge made under the Zambia Development Agency Act, to create employment.
6(1)	Increases the withholding tax rate on payments to non-resident contractors to twenty percent from fifteen percent.
6A	Introduces tax on distribution of branch profits at the rate of fifteen percent.
7(vi)	Increases the withholding tax rate on commissions to non-residents to twenty percent from fifteen percent.
7(vii)	Increases the withholding tax rate on public entertainment fees payable to non-residents to twenty percent from fifteen percent.

- 7(viii) Introduces withholding tax on winnings from gaming, lotteries and betting at the rate of twenty percent.
- 7(ix) Reduces the withholding tax rate on rent from fifteen percent to ten percent.

### **3.0 THE INCOME TAX (TURNOVER TAX) REGULATIONS, S.I. NO. 95 OF 2013**

#### **Subject**

The Regulations empower the Commissioner-General to prescribe the format of a turnover tax return.

### **4.0 THE PROPERTY TRANSFER TAX (AMENDMENT) ACT, NO. 14 OF 2013**

#### **PTT Act Section**

#### **Subject**

- 1 Title and commencement
- 4 Increases the rate of Property Transfer Tax to ten percent from five percent.
- 6 Provides for exemption from Property Transfer Tax to organisations listed in paragraphs 5(1) and 5(2) of the Second Schedule to the Income Tax Act.

### **5.0 THE VALUE ADDED TAX (AMENDMENT) ACT, NO. 15 OF 2013**

#### **5.0**

#### **Subject**

#### **VAT Act Section**

- 1 Title and commencement
- 2 Amends the definition of "commercial property".
- 19(2A) Provides for the off-setting of any tax credit due, to a person, against any tax due under any Act administered by the Commissioner-General.
- 21(8) Provides for the recovery of tax and interest before the expiry of a review period if the Commissioner-General's determination occurs earlier. It further replaces the word 'appeal' with 'review'.
- 21(9) Provides for definition of "review period".



24(A)

Empowers the Commissioner-General to place a Charge on land.

### **Third Schedule**

Includes the product 'sugar' to the list of products under the Schedule that are subject to the Minimum Taxable Value rules.

6.0

### **THE VALUE ADDED TAX (EXEMPTION) (AMENDMENT) ORDER, S.I. NO. 96 OF 2013**

#### **The First Schedule to the Value Added Tax Act**

##### **Subject**

- (a) Provides clarity of the wording in the provision under Group 6(a) and (b);
- (b) Deletes paragraph (b) of Group 6 and re-numbers (c) as (b);
- (c) Provides for the exemption of uncirculated new Zambian currency in coins under paragraph (g) of Group 7;
- (d) Extends an exemption to goods in respect of which a rebate, refund or remission of duty is available under regulations 75, 79 and 95 of the Customs and Excise (General) Regulations, S.I. No. 54 of 2000; and
- (e) Removes exemption of the goods under the scope of regulation 76 of the Customs and Excise (General) Regulations, S.I. No. 54 of 2000.

7.0

### **THE VALUE ADDED TAX (ZERO-RATING) (AMENDMENT) ORDER, SI. NO. 97 of 2013**

#### **The Second Schedule to the Value Added Tax Act**

##### **Subject**

- (a) Removes ancillary services provided at a port of exportation from the Schedule;
- (b) Removes tour activities from the Schedule;
- (c) Removes the provision of tour packages from the Schedule but maintains the zero rating for tour package contracts which were entered into prior to 1<sup>st</sup> January 2014 but only fulfilled after that date;
- (d) Re-numbers the paragraph after the deletion of paragraphs (b) and (h);
- (e) Includes under Group 2(d), the contribution of the Government of the Republic of Zambia to a co-financed project; and
- (f) Removes green gel from the Schedule.

**THE VALUE ADDED TAX (GENERAL) RULES, GAZZETTE  
NOTICE NO. 46 OF 2014****Subject****The Rules -**

- (a) provide for a Taxpayer Identification Number (TPIN) to replace the VAT number on the features of a tax invoice;
- (b) provide for the stamping of new TPIN on an invoice printed prior to 1<sup>st</sup> November 2013;
- (c) provide guidelines for the approval of printers of tax invoices or computer ges packages used to print tax invoices;
- (d) provide for specific features of a valid credit note;
- (e) restrict the non-standard tax periods to three months and aligns them to a calendar year;
- (f) remove the requirement to use Retailer Methods to determine the liability of supplies made by a retailer;
- (g) extend the list of the types of records to be maintained by a registered supplier;
- (h) remove the requirement for retailers to make annual or periodic adjustment of sales;
- (i) provide for the filing of VAT Returns electronically;
- (j) prescribe the conditions required for the zero-rating of tour packages which were booked before 1<sup>st</sup> January 2014;
- (k) remove the provision for filing returns by facsimile;
- (l) delete the First Schedule to remove special retailer methods; and
- (m) delete the Fourth Schedule.

## PART II: COMMENTARY ON AMENDMENTS

### THE INCOME TAX ACT

#### 9.1 SECTION 1: TITLE AND COMMENCEMENT

The amendments to the Income Tax Act shall come into effect on 1<sup>st</sup> January 2014.

#### 9.2 SECTION 2: INTERPRETATION

The following definitions have been introduced:

“branch profits” means the profits of a foreign company derived from the operation of its business within the Republic which are not re-invested in the Republic.

“industrial park” has the meaning assigned to it in the Zambia Development Agency Act No. 11 of 2006.

“multi-facility” economic zone” has the meaning assigned to it in the Zambia Development Agency Act No. 11 of 2006.

“property loan stock company” means a company listed on the Lusaka Stock Exchange which is involved in real estate investment and development and has a capital structure that consists of property linked units.

“property linked unit” means a unit comprising a share and a debenture in a company, where the share and debenture are linked together and cannot be disposed of independently of each other.

#### 9.3 SECTION 21: APPORTIONMENT OF GRATUITIES AND COMPENSATION FOR LOSS OF OFFICE

Section 21 of the principal Act is amended by the deletion of subsection (5) and the substitution thereof of the following:

- (5) *Where, upon termination of the services of an individual in an office or employment, income is received by way of-*
- a) compensation for loss of office or employment; or*
  - b) repatriation allowance or severance pay, on termination by reason of redundancy, early retirement, normal retirement or death;*
- the first thirty-five thousand kwacha of the total or aggregate income received, as applicable, shall be exempt from income tax.*

This amendment clarifies that only repatriation allowance or severance pay resulting from redundancy, retirement or death shall be entitled to a tax relief as provided for under section 21. However, where the same allowances are received in any other circumstances apart from those listed in section 21, these would be taxed according to the PAYE provisions.

## 9.4 SECTION 46A: PROVISIONAL INCOME

Section 46A of the principal Act is amended in the proviso to subsection (1) by the deletion of the words “one thousand nine hundred and twenty kwacha” and the substitution thereof of the words “*the amount specified in subparagraph (c) of paragraph 2 of the Charging Schedule.*”

This amendment aligns section 46A with sub-paragraph (c) of the Charging Schedule, so as to remove the need to amend section 46A whenever the PAYE threshold is adjusted.

## 9.5 SECTION 48A: DISAPPLICATION OF SECRECY OBLIGATIONS

The principal Act is amended by the insertion, immediately after section 48 of the following new section:

*48A. (1) Subject to subsection (2), the provisions of this Act shall have effect notwithstanding any obligation as to secrecy or other restriction on the disclosure of information imposed under the Banking and Financial Services Act, the Evidence Bankers Books Act, the Accountants Act, 2008 and the Legal Practitioners Act in respect of information required by the Commissioner-General for the purposes of this Act.*

*(2) Subsection (1) shall not apply to information received from, or obtained on, a client by a legal practitioner-*

- (a) in the course of ascertaining or receiving instructions from a client; or*
- (b) in defending or representing a client, or concerning judicial, administrative, arbitration or mediation proceedings, including advice on instituting or avoiding proceedings, whether such information is received or obtained before, during or after such proceedings.*

This amendment empowers the Commissioner-General to access information held by Legal Practitioners, Accountants and Financial Institutions, required for tax purposes. .

## 9.6 SECTION 63: COMMISSIONER-GENERAL'S POWER TO ASSESS

Section 63 of the principal Act is amended in subsection (1) by the insertion, immediately after paragraph (vii), of the following new paragraphs:

*(viii) income from gaming, lotteries and betting from which tax in respect of that charge year has been deducted under section eighty-two A; and*

*(ix) income from letting of property from which tax in respect of that charge year has been deducted under section eighty-two A.*

This amendment is meant to prohibit the Commissioner-General from assessing income from the letting of property and income from gaming, lotteries and betting where this income has been subjected to withholding tax. This means that the withholding tax deducted shall be the final tax.

However, where the income has not been subjected to a deduction of withholding tax, the income shall be assessed on the person in receipt of income which shall be taxed at the rate specified in the Charging Schedule.

## **9.7 SECTION 78: PENALTY FOR NON-PAYMENT OF TAX**

Section 78 of the principal Act is amended in subsection (1) by the deletion of paragraph

(b) and the substitution therefor of the following:

(b) *within the period of the notice of assessment during which the tax assessed is due.*

This amendment provides that penalties will start accruing immediately after the expiry of the payment period provided in a notice of assessment.

N.B. The payment period on an assessment can be any date from the date of assessment but not later than 30 days from date of assessment.

## **9.8 SECTION 79C: CHARGE ON LAND**

Section 79C of the principal Act is amended by the deletion in subsection (1) of the words *"without registration that may be required under any law relating to the registration of charges on land"*.

The amendment provides for the registration of a Charge on land in accordance with the Lands and Deeds Registry Act, Cap 185

## **9.9 SECTION 82A: DEDUCTION OF TAX FROM CERTAIN PAYMENTS**

Section 82A of the principal Act is amended by -

(a) the deletion of subsection (1) and the substitution therefor of the following:

(1) *Subject to the provisions of this section, a person or partnership making a payment of-*

(a) *a management or consultant fee deemed under section eighteen to be from a source within the Republic;*

(b) *interest and royalties from a source within or deemed under section eighteen to be within the Republic;*

(c) *rent from a source within the Republic;*

(d) *commissions, other than commissions received by an individual whose income is from employment or office;*

(e) *a public entertainment fee to, or on behalf of, a person or persons in partnership not resident in the Republic;*

(f) *commission deemed under section eighteen to be from a source within the Republic; or*

(g) *winnings from gaming, lotteries and betting;*

*irrespective of whether the payment is made outside the Republic shall, before making any other deduction, deduct tax from the payment referred to in paragraphs (a), (b), (c), (d), (e), (f) and (g) at the rate*

*specified in the Charging Schedule or as the Commissioner-General may direct to give effect to the provisions of any agreement made under section seventy-four or the provisions of the Second Schedule.*

- (2) *A person or partnership to whom subsection (1) applies shall account for tax as if the payment were subject to Part VI and for the purposes of this subsection, payment shall be deemed to be made when the income is received by the recipient as provided in section five, except that-*
- (a) this section shall not apply to interest payable on a bill of exchange drawn for one hundred and eighty days or less;*
  - (b) the payment of an amount in excess of the original issue price for any treasury bill or similar financial instrument sold at a discount from face value which shall be deemed for the purposes of this section to be payment of interest when the treasury bill or any other similar financial instrument is presented for redemption or rediscount;*
  - (c) the Commissioner-General may determine that the provisions of paragraph (b) or (d) of subsection (1) shall not apply in any particular case and shall, in writing, notify the person or partnership concerned that the provisions of paragraph (b) or (d) of subsection (1), as applicable, shall not apply to such person or partnership to the extent and to the period specified in such notification; and*
  - (d) in the case of paragraph (b) of subsection (1), the direction to be issued under paragraph (c) shall only be for interest arising from a property linked unit of a property loan stock company; and*
- (b) the re-numbering of subsections (2), (3), (4), (5), (6), (7) and (8) as subsections (3), (4), (5), (6), (7), (8) and (9) respectively.

This amendment-

- (i) introduces the requirement to deduct withholding tax on winnings from gaming, lotteries and betting. All winnings from gaming, lotteries and betting in money or money's worth shall be subject to withholding tax. Examples include winnings from raffle draws, commercial promotions and radio/television promotions or winnings from any other game of chance.

Where the winning is in the form of a service or tangible good (e.g. house, holiday package), the tax shall be levied on the value of the service or the good respectively.

#### Example 1

Mr. X wins a house worth K250, 000.00 in a promotion. The promoter will deduct and remit withholding tax of K50, 000.00 to Zambia Revenue Authority.

#### Example 2

Ms. Y wins a holiday package worth K20, 000.00 in accommodation and

food, K8, 000.00 air tickets and K2, 000.00 for incidentals.

The promoter will account for withholding tax as follows:

Accommodation and Food	K20, 000.00
Air Tickets	K 8,000.00
Incidentals	<u>K 2,000.00</u>
Total	<u>K30, 000.00</u>

WHT @ 20%	K 6,000.00
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- (ii) empowers the Commissioner-General to issue a limited deduction directive in the case of interest arising from property linked units. This means that the Commissioner-General can issue a directive that a person making a payment of interest on property linked units may not deduct withholding tax.
- (iii) provides that withholding tax on rent shall not be subject to exemption as previously provided for under a limited deduction directive. However, this amendment does not affect persons that are exempt under the Second Schedule.

Note:

A limited deduction directive is a power granted to the Commissioner-General to reduce the rate of withholding tax to be applied on eligible payments.

## 9.10 SECTION 95: TRANSACTION DESIGNED TO AVOID TAX LIABILITY

Section 95 of the principal Act is amended by the insertion, immediately after subsection (3), of the following new subsection:

- (4) For the purposes of determining liability to tax under subsection (1), the Commissioner-General may-*
- (a) re-characterise a transaction or an element of a transaction that was entered into as a tax avoidance scheme; and*
  - (b) re-characterise a transaction the form of which does not reflect the substance.*

This amendment enhances anti-avoidance provisions by empowering the Commissioner-General to re-characterise a transaction or an element of a transaction where the Commissioner-General has determined that a transaction was entered into merely for the purposes of avoiding tax and whose form does not reflect the substance. This means that a transaction or an element of a transaction shall be accorded its correct nature as opposed to form.

## 9.11 SECTION 97A: TRANSFER PRICING

Section 97A of the principal Act is amended by the deletion of subsection (2) and the substitution thereof of the following:

- (2) This section shall apply where a taxpayer engages in one or more commercial or financial transactions with an associated person and the actual conditions made*



*or imposed in that transaction or transactions are different from the arm's length conditions and there is, except for this section, a reduction in amount of income taken into account in computing the income of one of the associated persons referred to in subsection (1), in this section referred to as "the first taxpayer" chargeable to tax for a charge year, in this section referred to as "the income year".*

This amendment adds the words "commercial or financial" to provide clarity and align the provisions in the Income Tax Act with international best practice.

## **9.12 SECTION 97C: PROVISIONS SUPPLEMENTARY TO SECTION 97A**

Section 97C of the principal Act is amended by the deletion of subsections (4) to (7) and the substitution therefor of the following:

*(4) For the purposes of section ninety seven A and ninety-seven B, a person is associated with another if-*

- (a) the person participates directly or indirectly in the management, control or capital of the other; or*
- (b) the persons participate directly or indirectly in the management, control or capital of both of them.*

*(5) For the purposes of section ninety seven A and ninety seven B, where conditions are made or imposed between associated persons in their commercial or financial relations-*

- (a) it shall be assumed, unless the contrary is shown to the satisfaction of the Commissioner-General, that different conditions or no conditions would have been imposed if those persons were not associated; and*
- (b) where a claim is made under subsection (4) of section ninety seven A, it shall be for the claimant to prove that the claim satisfies that subsection.*

*(6) The Minister may, by statutory instrument, prescribe-*

- (a) the direct and indirect participation in the management, control or capital of a person and different provision that may be made in relation to different cases or different classes of each case;*
- (b) the determination of whether the conditions of a controlled transaction under subsection (3) of section ninety-seven A are consistent with the arm's length conditions and the quantum of any adjustment made to the income of the first person or the second person in relation to subsections (3) and (4) of section ninety seven A; and*
- (c) documentation rules in relation to section ninety seven A that specify the information and documents required to be kept by a person in relation to section ninety-seven A and penalties for noncompliance of the Regulations.*

*(7) Regulations under this section may create offences punishable with a fine not exceeding ten thousand penalty units for a failure to comply with the provisions of the Regulations.*

This amendment empowers the Minister of Finance to make regulations:

- (i) prescribing transfer pricing methods that can be used to determine arm's length conditions; and*



- (ii) on transfer pricing documentation rules which specify the type of information and documents that taxpayers are required to maintain;

The Regulations may provide for penalties for non-compliance.

### 9.13 FIRST SCHEDULE: FURTHER CLASSIFICATION OF INCOME

- a) The First Schedule to the principal Act is amended by the deletion of paragraph 8 and the substitution thereof of the following:

*(8) Income includes the difference between the market value of the shares at the date of exercise of the share options and the option price or the gross sale proceeds or proceeds from sale of options in respect of shares allotted, reserved, vested or acquired by an individual in terms of a share option scheme net of any amount paid for the acquisition or exercise of the shares or options by the individual concerned, and shares or options sold shall be deemed to be the shares or options longest held, except that the relief afforded by subsection (5) of section twenty-one shall extend to such income to the extent not absorbed by compensation received for loss of office or employment where the gross sale proceeds are receivable within one year of termination of services.*

The amendment enhances and provides clarity on the determination of the benefit (value) arising from the share options and the applicable tax points. It further broadens the scope to include share options relating to unapproved share option schemes.

The benefits shall be determined as follows:

- (i) Market Value at the date of exercise of the share option minus Option Price; or
- (ii) Gross Sale Proceeds minus any amount paid for the acquisition or exercise of the option.

Tax shall be calculated at the time that an employee has exercised a share option and/or sold the shares depending on the circumstances.

- b) The First Schedule has further been amended by the insertion, immediately after paragraph 9, of the following new paragraph:

*(10) Income includes benefits arising from gaming, betting and lottery winnings.*

This amendment classifies winnings from gaming, lotteries and betting as income for tax purposes.

### 9.14 SECOND SCHEDULE: EXEMPTIONS

- a) The Second Schedule to the principal Act is amended by the insertion immediately after clause (b) of subparagraph (2) of paragraph 5, of the following new clause:

*(c) Millennium Challenge Account Zambia (MCA Zambia) and any implementing entity appointed under the Millennium Challenge Compact Act, 2013;*

The amendment exempts from taxation the income received by the Millennium Challenge Account Zambia and income for any implementing entity appointed under the Millennium Challenge Compact Act, 2013.

- b) The Second Schedule has further been amended by the deletion in paragraph 7, of clauses (p), (u) and (aa).

This amendment removes the exemption from tax, income received:

- (i) by a person designated as an enterprise under the Zambia Development Agency Act of 2006;
- (ii) by a person designated as micro or small enterprise under the Zambia Development Agency of 2006; and
- (iii) in the form of dividends declared by a company approved under the Zambia Development Agency of 2006.

The amendments are effective from 11<sup>th</sup> October 2013 in accordance with the Taxation (Provisional Charging) Order, 2013, S. I. No. 93.

## **9.15 FIFTH SCHEDULE: CAPITAL ALLOWANCES FOR BUILDINGS, IMPLEMENTS, MACHINERY AND PLANT AND PREMIUMS**

The Fifth Schedule to the principal Act is amended by the insertion immediately after the words “*person operating in*” of the words “*a priority sector or in respect of a priority product*”.

The amendment restricts the claiming of improvement allowance of one hundred per cent on buildings to only those businesses in a priority sector or dealing in a priority product and are operating in a multi-facility economic zone or industrial park, declared as such under the Zambia Development Agency) Act, 2006.

Note:

Priority sectors and priority products are outlined in the Second Schedule to the ZDA Act of 2006.

## **9.16 CHARGING SCHEDULE**

### **RATES OF TAX**

#### **(a) PAY AS YOU EARN - Paragraph 2(1)(c),(d),(e)**

The amendment increases the annual income band taxable at zero percent for individuals from K26, 400 to K36, 000.

This means that an individual who earns up to K3, 000 per month or up to K36, 000 per annum shall not pay Income Tax.

The income bands have equally been adjusted as shown in Table 1 below:

**Table 1: COMPARISON OF PERSONAL INCOME TAX BANDS**

2014 CHARGE YEAR Income Bands	2013 CHARGE YEAR Income Bands	Rates
First K36,000	First K 26,400	@ 0%
Above K36,000 up to K45,600	Above K26,400 up to K36,000	@ 25%
Above K45,600 up to K70,800	Above K36,000 up to K70,800	@ 30%
Above K70,800	Above K70,800	@ 35%

**NOTE: CALCULATION OF GRATUITY**

The amendment increases the exempt amount for qualifying gratuity from K26, 400 to K36, 000 per annum.

**(b) SPECIAL CASES - Paragraph 5 (e), (f) and (g)**

Paragraph 5 of the principal Act is amended by the deletion of clauses (e), (f) and (g) and the substitution therefor of the following:

*(e) on the income of a rural business enterprise or business enterprise in a priority sector operating in a multi-facility economic zone or an industrial park tax shall be charged at zero percent for a period of five years starting from the year of commencement of operations of the approved investment;*

*(f) tax to be deducted from any dividend declared by a rural business enterprise or business enterprise in a priority sector operating in a multi-facility economic zone or industrial park shall be at the rate of zero percent per annum for a period of five years starting from the year of commencement of operations of the approved investment.*

This amendment:

- i) introduces income tax incentives (income taxed at zero percent) for rural business enterprises for a period of five years from the year of commencement of operations;
- ii) restricts tax incentives to business enterprises in a priority sector operating in a multi-facility economic zone or industrial park and limits the period of accessing the tax incentives to five years;
- iii) introduces income tax incentives on dividends (taxed at zero percent) for rural business enterprises for a period of five years from the year of commencement of operations;
- iv) restricts tax incentives on dividends to business enterprises in a priority sector operating in a multi-facility economic zone or industrial park; and

- v) removes the provision from the Income Tax Act for the Commissioner-General to withdraw tax incentives from an investor who fails or neglects to fulfil the investor's pledge to create employment, as this is already provided for under the Zambia Development Agency Act.

**NOTE:**

The amendments are effective from 11<sup>th</sup> October 2013 in accordance with the Taxation (Provisional Charging) Order, S.I. No. 93 of 2013. All businesses issued with licences under the Zambia Development Agency Act after 11<sup>th</sup> October 2013, that are in a priority sector but not operating in Multi-Facility Economic Zones (MFEZ) or industrial parks shall not qualify for the incentives. Further, operators in MFEZ issued with licences under the Zambia Development Agency Act after 11<sup>th</sup> October 2013 and are not in a priority sector will not qualify for the incentives.

**(c) WITHHOLDING TAX – Paragraph 6**

Paragraph 6 of the principal Act is amended by the deletion of subparagraph (1) and the substitution thereof of the following:

*(1) Tax required to be deducted from any payment made under section eighty-one and section eighty one A shall be deducted at:*

- (a) the rate of fifteen percent for dividends;*
- (b) the rate of twenty percent for payments to non-resident contractors;*
- (c) such other rate as the Commissioner-General directs to give effect to the provisions of any agreement made under section seventy-four or to give effect to any provision in the Second Schedule; or*
- (d) the rate of zero percent per annum for any dividends paid by any person carrying on mining operations*

This amendment increases the rate of withholding tax to twenty percent from fifteen percent for payments made to non-resident contractors.

**(d) WITHHOLDING TAX – Paragraph 6A**

The principal Act is amended by the insertion, immediately after paragraph 6, of the following new paragraph:

*6A. Tax required to be deducted from a payment or distribution of branch profits shall be at the rate of fifteen percent;*

This amendment introduces a rate of withholding tax on profits distributed by branches.

**(e) WITHHOLDING TAX – Paragraph 7**

Paragraph 7 of the principal Act is amended by the insertion in the proviso to paragraph 7 of the following new clauses:

*(vi) tax required to be deducted from the payment of commissions to a nonresident deemed under section eighteen to be from a source within the Republic shall be at the rate of twenty percent;*

*(vii) tax required to be deducted from the payment of public entertainment fees shall be at the rate of twenty percent;*

*(viii) tax required to be deducted from the payment of winnings from gaming, lotteries and betting shall be at the rate of twenty percent; and*

*(ix) tax required to be deducted from the payment of rent shall be at the rate of ten percent*

This amendment:

- i) increases the rate of withholding tax to twenty percent from fifteen percent on payments made to non- residents on commissions and public entertainment fees;
- ii) introduces a rate of withholding tax of twenty percent for payments made for winnings from gaming, lotteries and betting; and
- iii) reduces the rate of withholding tax from fifteen percent to ten percent on payments of rent.

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## **10.0 THE INCOME TAX (TURNOVER TAX) REGULATIONS, 2013 S. I. NO. 95 OF 2013**

### **10.1 REGULATION 7: RETURNS**

The principal Regulations are amended in regulation 7 by the deletion of sub-regulation 2 and the substitution therefor of the following:

*(2) A return submitted to the Commissioner-General shall be in the manner and form specified by the Commissioner-General.*

The amendment empowers the Commissioner-General to prescribe the format of a turnover tax return.

### **10.2 SCHEDULE**

The principal Regulations have been amended by the removal of the Schedule. This means that the prescription of the return is no longer part of the principal Regulations.



## **11.0 THE PROPERTY TRANSFER TAX (AMENDMENT) ACT, NO. 14 OF 2013**

### **11.1 SECTION 1: TITLE AND COMMENCEMENT**

The amendments to the Property Transfer Tax Act shall come into effect on 1<sup>st</sup> January 2014.

### **11.2 SECTION 4(2): RATE OF TAX**

The principal Act is amended in section 4 by the deletion of subsection (2) and the substitution thereof of the following:

*(2) The rate of tax shall be ten percent of the realised value of the property.*

The amendment increases the rate of tax on transfer of land and shares from five percent to ten percent.

### **11.3 SECTION 6(1) (f): EXEMPTIONS**

Section 6 of the principal Act is amended by the deletion, in subsection (1), of paragraph (f) and the substitution thereof of the following:

*(f) the organisations listed in paragraphs 5 (1) and (2) of the Second Schedule to the Income Tax Act.*

This amendment extends the exemption from Property Transfer Tax to Millennium Challenge Account Zambia and any implementing entity appointed under the Millennium Challenge Compact Act, 2013.

## 12.0 THE VALUE ADDED TAX ACT

### 12.1 SECTION 1: TITLE AND COMMENCEMENT

All amendments to the Value Added Tax Act shall come into effect on 1<sup>st</sup> January 2014.

### 12.2 SECTION 2: INTERPRETATION

Section 2 of the principal Act is amended by the deletion of the definition of “commercial property” and the substitution therefor of the following:

*“commercial property” means a building that is used for commercial purposes, and includes an office building, an industrial building, a health facility, hotel, shopping mall, retail store, shopping centre, warehouse, garage, recreation centre, dwelling house used for commercial purposes and multi-facility building.*

This amendment provides clarity in respect of the definition of “commercial property” by replacing “dwelling house” with “dwelling house used for commercial purposes”. It further replaces “multi-facility dwelling apartment” with “multi-facility building”.

A multi facility building will be regarded as commercial property regardless of use.

### 12.3 SECTION 19(2): PAYMENT OF TAX OR CREDIT

Section 19 of the principal Act is amended by the deletion of subsection (2) and the substitution therefor of the following:

*(2) Where in respect of a particular accounting period beginning on or after 1<sup>st</sup> April, 1998, a registered supplier's allowable credits exceed what would have been the supplier's tax liabilities for the accounting period, the Commissioner-General shall, within thirty days after the return is submitted, remit to the supplier the amount standing to the credit of the supplier by reason of the excess.*

*(2A) Where any tax is due and payable by a registered supplier to the Commissioner-General under the Income Tax Act, the Customs and Excise Act and Property Transfer Tax Act or any other written law administered by the Commissioner-General, any excess due to the registered supplier shall first be applied to satisfy the tax due and payable to the extent of such tax and the Commissioner-General shall give written notice to the taxable supplier of the amount so applied to meet the tax liability under the relevant tax Act and the nature of tax.*

The amendment empowers the Commissioner-General to offset VAT refunds due to a supplier against any tax liabilities owed by that supplier under any Tax Act administered by the Commissioner-General.



## 12.4 SECTION 21(8), (9): ASSESSMENT OF TAX

Section 21 of the principal Act is amended by the deletion of subsections (8) and (9) and the substitution thereof of the following:

*(8) Any tax and interest assessed under this section shall be recoverable after or within the review period immediately after the Commissioner-General determines the matter whichever occurs earlier.*

*(9) In this section, "review period" means a period of thirty days from the date of notice of assessment.*

This amendment empowers the Commissioner-General to collect tax within the review period where the determination is made prior to expiry of the review period. Where the determination is not made within the review period, the assessment will be payable after 30 days of the date of assessment.

It further replaces the words "appeal period" with "review period" so as to realign the wording in Part VI of the Value Added Tax Act.

## 12.5 SECTION 24A: CHARGE ON LAND

The principal Act is amended by the insertion, immediately after section 24, of the following new provision:

*(24A) (1) Notwithstanding anything to the contrary contained in any other written law, where a person or partnership from whom tax is due owns land in the Republic, the Commissioner-General may give notice to the person or partnership, in writing stating that the amount of tax due shall be a charge on the land and is immediately created.*

*(2) The charge referred to in subsection (1)-*

*(a) is effective from the date of service of the notice;*

*(b) remains valid until-*

*(i) there is a change of ownership of the land; or*

*(ii) the notice is withdrawn; and*

*(c) shall be registered in accordance with the Lands and Deeds Registry Act.*

*(3) For the purposes of this section, "land" includes any vacant piece of land and any building or improvements on any piece of land.*

The amendment introduces a provision that empowers the Commissioner-General to place a charge on land as a debt enforcement tool.

## 12.6 THIRD SCHEDULE: SPECIFIED SUPPLIES

The Third Schedule to the principal Act is amended by the insertion, immediately after paragraph 9, of the following new paragraph:

*(10) Sugar*

This amendment includes the product 'sugar' to the list of products under the Minimum Taxable Value supplies.

## **13.0 VALUE ADDED TAX (EXEMPTION) AMENDMENT ORDER S. I. No. 96 OF 2013**

### **13.1 GROUP 6: CONVEYANCE ETC OF REAL PROPERTY**

#### **GROUP 6(a):**

The First Schedule to the principal Order is amended in Group 6 by the deletion of paragraph (a) and the substitution therefor of the following:

- (a) *the sale or lease of an interest in land, other than-*
  - (i) *the sale, lease or rental of commercial property; and*
  - (ii) *the sale of a dwelling house by a person carrying on the business of constructing dwelling houses for sale;*

The amendment merges paragraphs (a) and (b) of Group 6 into paragraph (a) and clarifies the sale of a dwelling house by a supplier whose business is constructing houses for sale as being standard rated.

#### **NOTE.**

The sale, lease or rental of dwelling houses (hitherto domestic buildings) remains exempt.

#### **Group 6(b)**

The First Schedule to the principal Order is amended in Group 6 *by the deletion of paragraph (b) and the re-numbering of paragraph (c) as paragraph (b).*

### **13.2 GROUP 7: FINANCIAL AND INSURANCE SERVICES**

Paragraph 2 of the First Schedule to the principal Order is amended in Group 7 by the deletion of paragraph (g) and the substitution therefor of the following:

- (g) *uncirculated new currency of the Republic in notes and coins.*

The amendment provides for the exemption of uncirculated new coins of the Zambian currency.

### **13.3 GROUP 10: RELIEF AT IMPORTATION**

The First Schedule is amended in paragraph 2 by the deletion in Group 10, of paragraph (a) and substitution therefor of the following:

- (a) *goods in respect of which a rebate, refund or remission of duty is available under regulations 74, 75, 78, 79, 80, 82, 83, 84, 85A, 86, 87, 87A, 94 and 95 of the Customs and Excise (General) Regulations, 2000, subject to the same limitations and conditions as pertain to the rebate, refund or remission and to such modification as may be specified therein.*

This amendment extends exemption to goods in respect of which a rebate, refund or remission of duty is available under regulation 75 (remission of duty of warehoused goods not worth duty), 79 (remission or rebate of duty of goods re-imported) and 95 (remission of duty on airline and airline operators' documents) of the Customs and Excise General Regulations, 2000.

It further removes from exemption goods under the scope of regulation 76 (refund of duty paid on goods found to be of defective or faulty manufacture after release from Customs control) of the Customs and Excise (General) Regulations, S.I. No. 54 of 2000.

## 14.0 VALUE ADDED TAX (ZERO-RATING) AMENDMENT ORDER, S. I. No. 97 OF 2013

### 14.1 GROUP 1: EXPORT OF GOODS

The Second Schedule is amended in paragraph 2 by the deletion in Group (1)

- (i) of paragraph (b) and (h);
- (ii) of paragraph (i) and the substitution therefor of the following:
  - (i) *the supply of an inclusive tour to a tourist by a tour operator or travel agent licensed as such under the Tourism and Hospitality Act, 2007, if the contract was entered into before 1<sup>st</sup> January, 2014, subject to such conditions as the Commissioner-General may require; and*
  - (ii) *by the re-numbering of paragraph (c), (d), (e), (f), (g), (i), (j) and (k) as paragraphs (b), (c), (d), (e), (f), (g), (h) and (i).*

The effect of the deletion is that the following are now standard rated:

- a) Ancillary services provided at a port of export;

All services which are rendered at a port of exportation in relation to goods being exported are standard rated, e.g. handling services, transportation, packaging, loading and storage.

- b) Tour packages.

The provision of tour packages by an operator or travel agent is standard rated. It should be noted however that, contracts relating to tour packages entered into before 1<sup>st</sup> January 2014 shall remain zero-rated in cases where the actual execution is effective on or after 1<sup>st</sup> January 2014.

Although the Statutory Instrument has not specified the time limit of the contracts, Zambia Revenue Authority shall consider the normal commercial practice of the industry in determining the term of the contracts. In addition the Authority shall also use as evidence of pre-booking for tour packages, schedules on confirmed bookings that were submitted to the respective tax offices by 2nd January 2014 and any other information that may be applicable as proof of the pre-booking.

- c) Notable tourism services:
  - i) game viewing;
  - ii) abseiling;
  - iii) bungee jumping;
  - iv) canoeing;
  - v) hot air ballooning;
  - vi) hang gliding;
  - vii) para-sailing;
  - viii) river boarding;
  - ix) white water rafting;
  - x) boat cruising;

- xi) micro lighting;
- xii) helicopter tours;
- xiii) walking safaris;
- xiv) clay pigeon shooting;
- xv) elephant back safari;
- xvi) fixed wing flights over the falls;
- xvii) gorge swinging or flying fox;
- xviii) paint ball shooting;
- xix) quad biking safari;
- xx) steam train excursion;
- xxi) walking with lions; and
- xxii) tourists guiding.

## **14.2 GROUP 2: SUPPLIES TO PRIVILEGED PERSONS**

The Second Schedule is amended in paragraph 2 by the deletion in Group 2, of item (d) and the substitution thereof of the following;

*(d) goods and services supplied to, or imported under, a technical aid programme or project executed by a written agreement between the Government of the Republic of Zambia and the donor, which are 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 the donor or contractor of the donor provides evidence of purchase of the goods and services pursuant to the agreement, as the Commissioner-General may require.*

This amendment provides for the zero-rating of the Government's contribution to a co-financed project where there is a written agreement between the donor and the Government of the Republic of Zambia. The evidence required for zero-rating is a VAT zero-rating Local Purchase Order (LPO) issued by the donor, an agent of the donor in Zambia or the Commissioner-General.

## **14.3 GROUP 9: ETHANOL BASED BIO-FUEL**

The Second Schedule is amended in paragraph 2 by *the deletion of Group 9*

The effect of the deletion is that Green Gel is now standard rated.

## 15.0 THE VALUE ADDED TAX (GENERAL) RULES GAZETTE NOTICE No. 46 OF 2014

### 15.1 RULE 3 – TAX INVOICES

The principal Rules are amended by the deletion of rule 3 and the substitution thereof of the following:-

*3 (1) A tax invoice is to be issued for all supplies of goods and services and shall include the following features:*

- (i) the words 'tax invoice' displayed in a prominent place;*
- (ii) the registered supplier's name, and address;*
- (iii) taxpayer identification number;*
- (iv) the date of issue of the invoice;*
- (v) the number of the invoice taken from a consecutive series;*
- (vi) the customer's name and address;*
- (vii) a description sufficient to identify the goods or services supplied which includes the quantity of the goods or the extent of the service supplied, the tax exclusive amount charged for each description of goods and services supplied and the rate or rates of tax; and indicate:-*
  - the total amount charged on the invoice, exclusive of tax;*
  - the rate and amount of discount given if any;*
  - the total tax charged; and*
  - the total amount charged on the invoice, inclusive of tax*

Provided that for banks registered under the Banking and Financial Services Act, a bank statement shall qualify as a tax invoice.

*(2) A new Taxpayer Identification Number (TPIN) shall be stamped in a prominent place on an invoice. This shall apply to all invoices printed prior to 1<sup>st</sup> November 2013 and issued between 1<sup>st</sup> November 2013 and 31<sup>st</sup> October 2014. However, such stamped invoices shall not be issued after 31<sup>st</sup> October 2014.*

The amendment replaces the requirement to indicate the VAT registration number on a tax invoice with a TPIN. The amendment takes effect from 1<sup>st</sup> November 2013. Taxable suppliers who have in stock invoices printed prior to the change of the law will be allowed to use the invoices provided that they stamp their TPINs on a prominent place on the invoice.

## **15.2 RULE 4 – APPROVING OF PRINTERS OF TAX INVOICES AND COMPUTER PACKAGES USED FOR PRINTING TAX INVOICES**

The principal Rules are amended by the deletion of rule 4 and the substitution therefor of the following:-

- 4 (1) *A registered supplier shall issue a tax invoice from an invoice book printed by a printer or from a computer package approved by the Commissioner-General.*
- (2) *For a person to be approved as a printer of tax invoices, that person shall:*
- (i) apply using a form provided by the Commissioner-General; and*
  - (ii) hold a valid tax clearance certificate at the time of application.*
- (3) (i) *In the case of accounting packages, the Commissioner General shall approve specific computer packages and the list of approved computer packages shall be posted in Zambia Revenue Authority website: [www.zra.org.zm](http://www.zra.org.zm); and*
- (ii) *Taxable suppliers using any of the approved computer packages need not apply to the Commissioner-General.*
- (4) *An approved computer accounting package should have the following features:*
- (i) print invoices, credit notes and debit notes bearing all the mandatory features of a tax invoice;*
  - (ii) generate automatic and consecutive document numbering with in-built safeguard against reallocation or resetting of the numbers in any circumstances;*
  - (iii) transform transactions upon posting and printing of a tax invoice into read-only to all users or, where editing is possible a read-only audit trail showing original details is in-built;*
  - (iv) periodic transaction reports showing invoice number, invoice date, customer's name, description of goods or services supplied, value before VAT and VAT amount;*
- (5) *Tax invoices not meeting the requirements of Rules (3) and (4) shall not be accepted as evidence for input tax claims.*

## **15.3 RULE 5 – CREDIT NOTES**

The principal Rules are amended by the deletion of rule 5 and the substitution therefor of the following:-

- (5)(1) *A registered supplier who has issued a tax invoice shall unless the Commissioner-General otherwise allows, issue a Tax Credit Note whenever the supply is cancelled, or the goods are returned to the taxable supplier, or the value of the supply is reduced.*
- (2) *The tax credit note shall contain the following features:*
- date of issue*
  - credit note number*

- *number of the invoice being adjusted*
- *statement of the reason for the credit*
- *amount of the credit*

The amendment provides for specific features that should be included on a valid tax credit note. For example, the credit note should have a reference to a specific tax invoice whose amount is being adjusted.

## 15.4 RULE 6 – NON STANDARD TAX PERIODS

The principal Rules are amended by the deletion of rule 6 and the substitution therefor of the following:-

6. *Except as otherwise allowed or directed by the Commissioner-General, a taxable supplier:-*
  - (a) *whose annual taxable turnover does not exceed statutory VAT registration threshold;*
  - (b) *who is involved in arranging or providing non-life insurance services; or*
  - (c) *who is involved in farming of seasonal crops:*

*may apply for three monthly tax periods. The quarterly tax accounting periods will be January to March; April to June; July to September and October to December.*

The businesses involved in arrangement and provision of non-life insurance now qualify for quarterly (non-standard) tax periods. Further, tour operators no longer qualify to be on quarterly (non-standard) tax periods.

### NOTE:

The quarterly tax accounting periods will be as follows:

- a) January to March;
- b) April to June;
- c) July to September; and
- d) October to December.

## 15.5 RULE 8 – RETAILER METHODS

*The principal Rules are amended by the deletion of rule 8.*

The amendment removes the requirement to use Retailer Methods to determine the liability of supplies made by a retailer as retailers now use Cash Registers that are able to indicate the VAT liability.

## 15.6 RULE 9 – PERIODIC ADJUSTMENT OF OUTPUT TAX

*The principal rules are amended by the deletion of rule 9.*

The amendment removes the requirement for periodic adjustment of output tax. This is because the cash registers capture sales by liability type i.e standard rated, zero-rated and exempt. This feature nullifies the need for annual adjustment by retailers.



## 15.7 RULE 12 – TRANSACTION RECORDS TO BE MAINTAINED

Rule 12 of the principal Rules is amended by the:-

- (a) deletion of rule 12 (iii) and substitution thereof of the following:
  - (iii) *the tax for each prescribed accounting period in respect of all supplies effected by the supplier, the input tax deducted or claimed and the net figure included in the return as payable to or claimed from the Authority; and*
- (b) insertion of the following new rule 12 (iv):
  - (iv) *the following records shall be required to be maintained:*
    - (1) *Sales day book, invoice books, till rolls and daily gross takings;*
    - (2) *Purchase day book and purchases invoices;*
    - (3) *Cash book;*
    - (4) *Asset register;*
    - (5) *Annual accounts;*
    - (6) *Bank statements and deposit books;*
    - (7) *Stock records, stock counts and reconciliation and production records;*
    - (8) *Log books and gate passes; and*
    - (9) *Any other records used for the purposes of the business*

The amendment specifies the records that are required to be maintained.

## 15.8 RULE 14: CORRECTION OF ERRORS

Rule 14 of the principal Rules is amended by the deletion of sub-rules 2, 3 and 4 and the substitution thereof of the following:-

- (2) *In the exercise of any discretion, the Commissioner General shall take into account the circumstances in which the taxable supplier disclosed any under-declaration in accordance with this Rule.*
- (3) *Where the Commissioner-General rejects a return, the supplier shall correct the return and re-submit it within ten working days from the date of rejection.*
- (4) *Where the return is not submitted within the period stipulated under sub-rule (3), the return shall attract late lodgement penalties under subsection (1) of section seventeen of the Act.*

The amendment provides for the resubmission of corrected returns within 10 working days and the charging of penalties for late submission thereon.

## 15.9 RULE 15: DOCUMENTS IN SUPPORT OF A VAT RETURN

Rule 15 is amended by the deletion of sub-rule 3 and the substitution thereof of the following new sub-rule (3);

- (3) *All suppliers, in respect of each tax period, shall file a VAT return electronically in the manner prescribed by the Commissioner General containing such information as required and the return shall be accompanied by such documents as the Commissioner General shall from time to time determine.*



The amendment provides for the electronic furnishing of returns. The output and input schedules which were previously submitted separately are now part of the return.

#### **15.10 RULE 19 – SUPPLY BY A TOUR OPERATOR OF AN INCLUSIVE TOUR**

The principal Rules are amended by the deletion of rule 19 and the substitution therefor of the following:-

*19. A tour operator registered with the Zambia National Tourist Board claiming that an inclusive tour booked prior to 1<sup>st</sup> January 2014 is zero-rated under the Second Schedule to the Act must satisfy the Commissioner-General that-*

- (a) the full value of the tour revenues (less commissions or similar fees paid) has been reflected fully in the accounts of the tour operator or travel agent in Zambia;*
- (b) proof of booking;*
- (c) the tour package is marketed at a VAT free price;*
- (d) the tour package must include tourist services other than accommodation or meals accounting for at least twenty-five percent of the total price charged for the tour, at their open market value.*
- (e) a tax invoice is issued in respect of the tour package; and*
- (f) the tourist services subcontracted to another licensed tour operator or travel agent shall be disclosed on a Zero Rated inclusive Tour Package Form VAT 112.*

The amendment prescribes conditions required for the zero rating of pre-booked tour packages which were booked before 1<sup>st</sup> January 2014.

#### **15.11 RULE 22 - RECEIPT OF VAT RETURN BY FACSIMILE TRANSMISSION**

*The principal rules are amended by the deletion of rule 22*

The rule is deleted because there is now a provision to submit all types of returns electronically (i.e nil, payment and repayment).

#### **15.12 FIRST SCHEDULE-SPECIAL RETAILER METHODS**

*The principal rules are amended by the deletion of the First Schedule.*

The amendment removes the special retailer methods. This is because all retailers are required to use cash registers rendering the retailer methods void.

#### **15.13 FOURTH SCHEDULE**

*The principal rules are amended by the deletion of the Fourth Schedule.*

The Output and Input schedules have been deleted as they are now part of the return rather than attachments.

## **PART III: OTHER MATTERS**

### **16.1 TAXATION OF BENEFITS**

#### **(i) Payment of Employees' Bills (benefits convertible into money's worth)**

Where an employer discharges the liability of an employee by paying his or her private bills or expenses such as rent, electricity, telephones, water bills, school fees, or school association fees, club membership fees, similar payments, the employer is required to add such payments to the employee's emoluments and deduct tax under PAYE.

#### **(ii) Benefits that cannot be converted into money or money's worth**

Benefits which cannot be converted into money or money's worth are not taxable on employees. However, no deduction in respect of the cost of providing the benefit may be claimed by the employer [section 44(l) of the Income Tax Act].

- (a) In the case of residential accommodation provided to an employee by the employer in a house owned or leased by the employer, the cost to be disallowed in the employer's tax computation is 30% of the taxable income paid to the employee.

Payments for utilities such as electricity, telephones, water bills, security and similar payments are not included in the meaning of free residential accommodation.

#### **NOTE:**

Leasing in this part is in respect of amounts which cannot be converted into money's worth

- (b) In the case of the provision of motor vehicles to employees on a personal-to-holder basis, the benefit to be disallowed in the employer's tax computation is as follows:

##### **(i) Luxury Cars**

- 2800cc and below 4000cc - K20, 000 per annum.

##### **(ii) Other Cars**

- 1800cc and below 2800cc - K15, 000 per annum.
- Below 1800 cc - K9, 000 per annum.

A personal - to - holder vehicle means a vehicle provided to an employee for both business and personal use and usually involves payment by the employer of all the expenses associated with running and maintaining the vehicle.

#### **(iii) Cash Benefits paid in the form of Allowances.**

All cash benefits paid in the form of allowances are taxable on the employee under PAYE.

Examples of such cash benefits are:

- Education allowance;
- Housing allowance;
- Transport/fuel allowance;
- Domestic Utility allowances e.g. for electricity, telephone, and water;
- Commuted car allowance;
- Settling in allowance; and
- Allowances paid in recognition of an employee's professional qualifications.

## 16.2 EMOLUMENTS THAT ARE NOT SUBJECT TO PAYE

The following emoluments are exempt or otherwise not chargeable to income tax and, consequently, need not be included in the taxable emoluments.

(i) **Ex – Gratia Payments:**

A voluntary, non – contractual, non – obligatory payment made by an employer to the spouse, child or dependant of a deceased employee is exempt (Paragraph 7 (t) of the 2<sup>nd</sup> Schedule to Income Tax Act).

(ii) **Medical Expenses:**

Medical expenses paid or incurred by an employer on behalf of an employee or refunds of actual medical expenses incurred by an employee are exempt (Statutory Instrument No. 104 of 1996).

(iii) **Funeral Expenses:**

Funeral expenses paid or incurred by an employer on behalf of an employee are exempt (Statutory Instrument No. 104 of 1996).

(iv) **Sitting Allowances for Councillors:**

Payments by Local Authorities to Councillors as Sitting Allowances are exempt [Paragraph 7(s) of the 2<sup>nd</sup> Schedule to Income Tax Act].

(v) **Labour Day Awards**

Labour Day awards paid to employees either in cash or in kind are non-taxable.

## **17.0 TAX TREATMENT OF CERTAIN EXPENSES.**

### **17.1 EXPENSES INCURRED ON ENTERTAINMENT, HOSPITALITY AND GIFTS**

Expenses incurred on entertainment, hospitality and gifts are not allowable, subject to the following exceptions:

- a) Where the business is one whose purpose is to provide entertainment or hospitality, e.g. hotels, restaurants, cinemas and theatres, the cost of providing these services is allowable;
- b) Where the entertainment is provided free with the purpose of obtaining publicity to the general public, e.g. free seats for critics at a cinema;
- c) Where an employer provides entertainment or hospitality for employees, e.g. meals, accommodation etc on business trips or a Christmas party for employees;
- d) Where a person gives gifts which bear an advertisement for the donor, e.g. calendars, pens, key holders, diaries, and other such like items, as long as the cost of the gift(s) to any one person does not exceed K100 in a charge year. The cost of gifts in excess of K100 to the same person is disallowable.

Note: i) Employees receiving entertainment allowances would be taxed under PAYE and the amount would be disallowable to the employer.

- ii) Where an employer defrays entertainment expenses directly, the cost would be disallowable to the employer but there would be no charge on the employee unless the normal rules as to benefits apply.

### **17.2 CANTEEN EXPENSES AND REFRESHMENTS.**

Where the employer incurs expenditure on the provision of refreshments or canteen meals or any other meals (except on business trips) to employees, the benefit arises in the hands of the employees. As the benefit cannot be converted into money's worth, it is not taxable on the employee.

Under the provisions of Section 44(l) of the Income Tax Act, the whole expenditure on refreshments, canteen meals, etc. is disallowable on the employer.

### **18.1 PAYMENTS ON CESSATION OF EMPLOYMENT**

Payments on cessation of employment fall into the following categories, among others;

- (a) payments made on dismissal or resignation;
- (b) payments made to an employee at the end of a contract;
- (c) payments made to an employee on redundancy;
- (d) payments made to an employee on retirement; and
- (e) payments made on the termination of employment due to death of an employee.

## **(a) DISMISSAL OR RESIGNATION OF AN EMPLOYEE**

Where an employee has been dismissed or resigns, the employee may receive the following payments:

- i. emoluments for example. salary, wage, overtime, leave pay, commission, bonus, fee;
- ii. cash in lieu of leave (leave days due but not taken);
- iii. salary in lieu of notice;
- iv. severance pay; and
- v. gratuity. (see treatment for gratuity (b) below)

Payments (i) to (iv) above are taxable by reference to the PAYE Tax Tables applicable for the month in which the payment accrued and do not qualify for the K35, 000 exemption under Section 21(5) of the Income Tax Act.

## **(b) EXPIRY OF EMPLOYMENT CONTRACT**

Where employment ceases on the expiry of a contract, the following payments are usually made to the employee:

- (i) a final salary;
- (ii) gratuity;
- (iii) leave pay;
- (iv) repatriation pay.

These payments are taxed as follows:

- Leave pay, repatriation pay and the salary are added and taxed under PAYE with respect to the tax table applicable for the month in which the payment accrues to the employee.
- Qualifying gratuity paid is taxed as follows:

**Table 3**

<b>Qualifying Gratuity Bands</b>	<b>Rates</b>
First K36,000	@ 0%
Above K36,000	@ 25%

A qualifying gratuity is one that meets the following conditions:

- (i) is paid upon the termination of a written contract;
  - (ii) the contract duration is not less than two years; and
  - (iii) is not more than 25% of the basic salary earned during the period of employment.
- Non - qualifying gratuity is added to the salary for the month in which it is paid and taxed with reference to the appropriate PAYE tax table.

Non qualifying gratuity is gratuity that does not meet any of the criteria set out under qualifying gratuity.

**NOTE:** Where the gratuity rate exceeds 25%, the first 25% will qualify and the balance will not. Therefore, gratuity shall not be deemed non-qualifying where the all the conditions are met except that the rate exceeds 25%.

### **(c) REDUNDANCY/RETRENCHMENT**

The following payments may be made to an employee who has either been declared redundant or has been retrenched:

- (i) Salary;
- (ii) Leave pay;
- (iii) Repatriation pay;
- (iv) Refund of pension contributions (from an approved pension scheme);
- (v) Salary in lieu of notice;
- (vi) Severance pay;
- (vii) Accrued service bonuses;
- (viii) Compensation for loss of office.

The above payments are taxed as follows:

- Salary, Leave pay, Salary in lieu of Notice, Accrued service bonuses are taxed under PAYE in the month in which they accrued to the employee;
- Repatriation allowance, Severance pay and Compensation for loss of office shall be taxed as follows:

The first K35, 000 is exempt from tax and the balance is taxed at 10%

- The refund of employee's pension contribution is taxed as a lump sum payment at the rate of 10% (Section 82).
- The refunded employer's pension contribution will be subjected to tax under the PAYE system.

### **(d) EARLY OR NORMAL RETIREMENT**

Where an employee has been retired early or normally, the following payments may be made:

- (i) salary;
- (ii) leave pay;
- (iii) repatriation pay;
- (iv) pension from an approved pension fund;
- (v) accrued service bonuses; and
- (vi) severance pay.

The above payments are taxed as follows:

- Salary, leave pay and accrued service bonuses are taxed under PAYE in the month in which payment accrued to the employee.

- Repatriation pay and severance pay shall be taxed as follows:
  - The first K35, 000 is exempt from tax and the balance is taxed at 10%;
  - Pension from an approved fund is exempt from tax (Paragraph 7(q) of 2<sup>nd</sup> Schedule to the Income Tax Act).

### **(e) TERMINATION OF EMPLOYMENT DUE TO DEATH**

The following payments may be made upon the death of an employee:

- (i) salary;
- (ii) leave pay;
- (iii) gratuity;
- (iv) an ex-gratia payment;
- (v) accrued service bonuses; and
- (vi) pension.

The above payments are taxed as follows:

- The salary up to date of death, leave pay and accrued service bonuses are taxed under PAYE in the month in which the payments accrued to the employee.
- Gratuity is taxed as in paragraph 18.1(b) above.
- Ex-Gratia payments are exempt from tax.
- The tax treatment of pension is the same as for early or normal retirement in 18.1(d) above.

### **18.2 TAX TREATMENT OF LEAVE PAY AND SALARY IN LIEU OF NOTICE**

All employers should take note that Leave Pay and Salary in Lieu of Notice, received on resignation, dismissal, expiry of contract, redundancy or retrenchment, early retirement, or on termination of employment due to death, will not be classified as terminal benefits under Section 21(5) of the Income Tax Act. Payments made in such cases should be subjected to tax under PAYE scheme in the normal way.

### **18.3 LUMP SUM PAYMENTS MADE ON MEDICAL GROUNDS**

Where the employer, on medical advice from a Government institution, determines that an employee is permanently incapable of discharging his/her duties through infirmity of mind or body, one may terminate the services of an employee.

A lump sum payment made to an employee on termination of employment on medical grounds is exempt from tax.

### **18.4 SEVERANCE PAY**

In most cases employers make payments of “severance pay” upon the dismissal or resignation of an employee. Payments made in such cases should not be classified as terminal benefits under Section 21(5) of the Income Tax Act.

However, where severance pay is paid as part of a package when an employee is retrenched, declared redundant, retires normally or opts for early retirement, the payment should be classified as terminal benefits. The tax treatment is covered under Section 21(5) of the Income Tax Act.

## **19.0 TAX TREATMENT OF SETTLING IN ALLOWANCES**

Settling in allowances, or whatever name called, paid to new employees and employees on transfer constitute emoluments and should be subjected to tax under the PAYE scheme.

## **20.0 TAXATION OF RENTAL INCOME**

Rental income received by any person is subject to withholding tax at the rate of 10% and it is a final tax.

### **20.1 Tenant's obligations**

#### **A Tenant must -**

- (i) register for withholding tax and obtain a Taxpayer Identification Number;
- (ii) submit, to the Commissioner-General, a withholding tax return within 14 days following the month of payment of the rentals;
- (iii) deduct and pay the withholding tax amount within 14 days following the month of deduction; and
- (iv) give a copy of the receipt in respect of the payment and certificate of deduction to the landlord within 14 days of making the payment.

### **20.2 Landlord's obligations**

#### **A landlord must -**

- (i) register for income tax and obtain a Taxpayer Identification Number; and
- (ii) submit annual income tax returns making full declaration of the rental income and other income received during the year.

### **20.3 Penalties for non-compliance**

Where a person fails to submit the Withholding Tax return and /or certificate to the Commissioner-General or to any other person authorised by the Commissioner, there shall be charged a penalty of-

- in a case of an individual 170 penalty units per month or part thereof during which such failure continues, or
- in a case of a company 340 penalty units per month or part thereof during which such failure continues.

#### **Note**

A penalty unit has been adjusted upwards from Eighteen Ngwee to Twenty Ngwee.



## 21.0 PART IV: TAX RATES

(a) **Personal Income Tax Rates:** Personal Income tax rates, with effect from 1<sup>st</sup> January 2014, are as follows:

**Table 4**

Income Bands	Rates
First K36'000	@ 0%
Above K36,000 up to K45,600	@ 25%
Above K45,600 up to K70,800	@ 30%
Above K70,800	@ 35%

(b) **Other Income Tax Rates**

**Table 5**

Category	Rate (%)
Any person carrying on mining operations (variable profit tax)	$Y = 30\% + [15\% - (ab/c)]$ , where- $Y$ = tax rate to be applied per annum; $a$ = 15%; $b$ = 8%; and $c$ = the percentage ratio of the assessable income to gross sales
Manufacturing & other companies	35
Public Benefit Organisation (on income from business)	15
Agro-processing	10
Farming	10
Non- traditional exports	15
Chemical manufacture of fertilizer	15
Organic Manufacture of fertilizer	15
Trusts, deceased or bankrupt estates	35
Rural enterprises	Tax chargeable reduced by 1/7 for 5 years
Business enterprise operating in a priority sector declared under the Zambia Development Agency Act, 2006 (For ZDA licence holders obtained prior to 11 <sup>th</sup> October 2013)	0% for the first 5 years  Rate reduced by 50% from 6-8 years Rate reduced by 25% from 9-10 years
Business Enterprise in a priority sector or in respect of a priority product operating in MFEZ or industrial parks	0 % for the first 5 years.
Electronic communication business:	
First K250, 000	35
Above K250, 000	40

### ( c ) Withholding Tax Rates

Table 6

Category	Rate (%)
Dividends (Final Tax)	15
Dividends paid by a company carrying on mining operations	0
Interest on GRZ bonds (Final Tax for Individuals & Exempt Organisations only)	15
Interest for individuals (earned from banks or building societies savings and deposit accounts),	0
Interest on Treasury Bills for Individuals (Final Tax)	15
Interest on Treasury Bills (Final Tax for Exempt Organisations)	15
Other Interest	15
Royalties (Residents)	15
Royalties to Non - Residents	20
Rent (Final Tax)	10
Commissions (Residents)	15
Commissions paid to Non - Resident persons (Final Tax)	20
Public Entertainment Fees for Non - Residents (Final Tax)	20
Management and Consultancy Fees to Non - Residents	20
Non-Resident Contractors (Final Tax)	20
Payment or Distribution of Branch Profits	15
Payment of Winnings from Gaming, Lotteries and Betting	20

#### Notes:

- (i) Interest includes that awarded by the Courts of Law.
- (ii) The term “Royalty” includes income from leasing and therefore leasing income is subject to withholding tax.
- (iii) The withholding tax rate on interest earned on government or corporate Bonds and Treasury Bills is 15%. This tax is final for individuals and for organisations that are exempt from Income Tax as per Second Schedule to the Income Tax Act (Exempt Organisations). The implication for Exempt Organisations is that despite their income being exempt, they are liable to tax on interest arising from government or corporate bonds, treasury bills and other financial instruments or securities (Securities in this regard are as defined in the Securities Act).

Exempt organisations include; Approved Public Benefit Organisations, Local Authorities, Statutory Bodies, Approved funds, Collective Investment Schemes etc.

The final tax rate for other companies and other organisations is at 35% and thus may be eligible to the credit on WHT deducted when determining the final liability payable.

**(d) VAT Rate**

<b>Category</b>	<b>Rate</b>
Standard Rate	16%
Zero-Rate	0%
Exempt	Not taxable

**(e) Property Transfer Tax Rates**

<b>Category</b>	<b>Rate</b>
Land(including buildings, structures or improvements there on)	10%
Shares	10%
Mining Right/ Interest in Mining Right	10%

**(f) Mineral Royalty Rates – Rate at 6% for all Minerals**



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## 22 DOMESTIC TAXES CONTACT ADDRESSES:

If you have any problems concerning your taxes, please contact the Client Services Centres or your nearest Domestic Tax Office at the following addresses:

- |  |   |
|--|---|
| <p>1 Client Services Centre<br/>New Revenue Hall<br/>Private Bag W136<br/><b>Lusaka</b><br/>Tel: Zamtel Network: (01) 383201<br/>Airtel Network: 0971 283201<br/>Fax: 021 1 226227</p>   | <p>2 Client Services Centre<br/>Nchanga House<br/>P. O. Box 20454<br/><b>Kitwe</b><br/>Tel: Zamtel Network: (01) 38 4420<br/>Airtel Network: 0971 28 4420<br/>Fax: 021 2 222942</p>                                   |
| <p>3 Client Services Manager – Large Taxpayer Office<br/>6<sup>th</sup> Floor, Revenue House<br/>P.O. Box 35710<br/><b>Lusaka</b><br/>Tel: Zamtel Network: (01) 38 2626<br/>Airtel Network: 0971 28 2626<br/>Fax: 021 1 220283</p> | <p>4 Assistant Director<br/>Design &amp; Monitoring - Taxpayer Services<br/>P.O. Box 35710<br/><b>Lusaka</b><br/>Tel: Zamtel Network: (01) 382505<br/>Airtel Network: 0971 28 2505<br/>Fax: 021 1 221075</p>          |
| <p>5 Assistant Director<br/>Design &amp; Monitoring – Policy &amp; Legislation<br/>P.O.Box 35710<br/><b>Lusaka</b><br/>Tel: Zamtel Network: (01) 38 2504<br/>Airtel Network: 0971 28 2504<br/>Fax: 021 1 221075</p>                | <p>6 Assistant Director<br/>Design &amp; Monitoring – Processing and Enforcement<br/>P.O.Box 35710<br/><b>Lusaka</b><br/>Tel: Zamtel Network: (01) 38 2502<br/>Airtel Network: 0971 28 2502<br/>Fax: 021 1 221075</p> |
| <p>7 Assistant Director<br/>Design &amp; Monitoring – Audit<br/>P.O.Box 35710<br/><b>Lusaka</b><br/>Tel: Zamtel Network: (01) 38 2506<br/>Airtel Network: 0971 28 2506<br/>Fax: 021 1 221075</p>                                   | <p>8 Assistant Director<br/>Large Taxpayer Office – Non-mining Audit Unit<br/>P.O.Box 35710<br/><b>Lusaka</b><br/>Tel: Zamtel Network: (01) 38 2602<br/>Airtel Network: 0971 28 2602<br/>Fax: 021 1 220283</p>        |
| <p>9 Assistant Director<br/>Large Taxpayer Office – Processing<br/>and enforcement<br/>P.O.Box 35710<br/><b>Lusaka</b><br/>Tel: Zamtel Network: (01) 38 2604<br/>Airtel Network: 0971 28 2604<br/>Fax: 021 1 220283</p>            | <p>10 Assistant Director<br/>Large Taxpayer Office – Mining Audit Unit<br/>P.O.Box 35710<br/><b>Lusaka</b><br/>Tel: Zamtel Network: (01) 38 2605<br/>Airtel Network: 0971 28 2605<br/>Fax: 021 1 220283</p>           |
| <p>11 Assistant Director<br/>Small Taxpayer Office - Lusaka<br/>P.O.Box 35710<br/><b>Lusaka</b><br/>Tel: Zamtel Network: (01) 38 3237<br/>Airtel Network: 0971 28 3237<br/>Fax: 021 1 229744</p>                                   | <p>12 Assistant Director<br/>Small Taxpayer Office - Copperbelt<br/>P.O. Box 70181<br/><b>Ndola</b><br/>Tel: Zamtel Network: (01) 38 4101<br/>Airtel Network: 0971 28 4101<br/>Fax: 021 2 614096</p>                  |

- 13 Assistant Director  
Medium Tax Office – South  
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- 14 Assistant Director  
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Airtel Network: 0971 28 4500  
Fax: 021 2 229942
- 15 Provincial Manager  
Small Taxpayer Office - Central  
P.O. Box 80909  
**Kabwe**  
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Airtel Network: 0971 28 1005  
Fax: 021 5 223642
- 16 Provincial Manager  
Small Taxpayer Office - Western  
P.O. Box 910110  
**Mongu**  
Tel: 021 7 221662  
Fax: 021 7 221662
- 17 Provincial Manager  
Small Taxpayer Office - Eastern  
P.O. Box 510632  
**Chipata**  
Tel: 021 6 221155  
Fax: 021 6 221155
- 18 Provincial Manager  
Small Taxpayer Office - Southern  
P.O. Box 60597  
**Livingstone**  
Tel: Zamtel Network: (01) 38 3803  
Airtel Network: 0971 28 3803  
Fax: 021 3 320772
- 19 Provincial Manager  
Small Taxpayer Office - Luapula  
P.O. Box 710112  
**Mansa**  
Tel: Zamtel Network: (01) 38 1700  
Airtel Network: 0971 28 1700  
Fax: 021 2 821147
- 20 Provincial Manager  
Small Taxpayer Office – North-Western  
P.O. Box 110368  
**Solwezi**  
Tel: 021 8 821682  
Fax: 021 8 821682
- 21 Provincial Manager  
Kasama Tax Office  
P.O. Box 410728  
**Kasama**  
Tel: 021 4 221810  
Fax: 021 4 221810
- 22 National Call Centre  
New Revenue Hall  
Private Bag W136  
**Lusaka**  
Tel: Zamtel Network: (01) 381111  
Airtel Network: 0971 281111  
Or 5972

Website: <http://www.zra.org.zm>

## Our Values

Our commitment to serving Government, taxpayers, employees and other stakeholders is reflected in our Corporate Values:

- Integrity*** : exhibiting the highest standards of personal probity and behaviour;
- Professionalism*** : performing official duties with skill, care and diligence; and providing the public with service and advice in a professional manner;
- Fairness*** : performing official duties in an impartial manner free of political, personal or other biases;
- Equity*** : treating all taxpayers, colleagues and members of the public equitably in accordance with the provisions of legislation and procedures in force;
- Courtesy*** : treating all taxpayers, colleagues and members of the public with courtesy and being sensitive to their rights, duties and aspirations;
- Teamwork*** : working as a team, not only to reinforce each other's divisional functions, but also at collegiate level in order to strengthen mutual confidence, respect and trust
- Value for Money*** : avoiding wastage and extravagant use of resources;
- Confidentiality*** : upholding the highest level of secrecy in respect of information that comes to one's knowledge in the course of duty;
- Goal orientation*** : focusing on the development and achievement of personal and organisational goals in the course of duty;
- Innovation*** : consistently improving on quality, quantity, timeliness and cost.





**For more information contact:**

**+260 211 381111/0971-281111/  
5972 / 0962251111**

**Email us at: [advice@zra.org.zm](mailto:advice@zra.org.zm)  
Website: [www.zra.org.zm](http://www.zra.org.zm)**

**Revenue House: P O Box 35710  
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