



**ZAMBIA REVENUE AUTHORITY**

**DIRECT TAXES DIVISION**

**INCOME TAX (AMENDMENT) ACT 2006**

**PRACTICE NOTE NO. 1/2006**

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## **1.0 GENERAL**

This **PRACTICE NOTE** describes the various changes introduced by the Income Tax (Amendment) Act 2006 and Mines and Minerals (Amendment) Act 2006.

The commentary is for general guidance only and is not to be taken as authority in any particular case.

The commentary is not exhaustive and does not, therefore, 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 Act.

Inquiries may be made at the nearest office of the Zambia Revenue Authority, Direct Taxes Division or Advice Centres, Lusaka and Kitwe.

**COMMISSIONER-GENERAL**

## 2.0 SUMMARY OF THE PRINCIPAL CHANGES

Amendment Act Clause	I.T.A Section	Subject	Para
1	1	Title and commencement	3.1
2	2	Removes the definition of former Zambia Consolidated Copper Mining Company and introduces a definition of “base metal”	3.2
3	30	Substitutes “any former Zambia Consolidated Copper Mines” with “any mining company holding a large scale mining licence and carrying on the mining of base metals”	3.3
4	30A	Introduces indexation of losses for any company holding a large scale mining licence and carrying on the mining of base metals	3.4
5	33	Provides for indexation of Capital allowances for any company holding a large scale mining licence and carrying on the mining of base metals	3.5
6	81AA	Introduces a definition of permanent establishment	3.6
7	81B	Empowers the Minister to determine the tax clearance exemption threshold.	3.7
8	1 <sup>st</sup> Sch.	Classifies refunds from the Environmental Protection Fund as income	3.8
9	2 <sup>nd</sup> Sch	Incorporates income tax incentives provided under the SEDB Act	3.9
10	2 <sup>nd</sup> Sch	Exempts the taxation of dividends: <ul style="list-style-type: none"> <li>i. Earned by an individual from a</li> </ul>	3.10

		company listed on LUSE	
		ii. Declared by a company assembling motor vehicles, motor cycles and bicycles	3.11
		iii. Declared by companies approved under the SEDB Act	3.12
11	5 <sup>th</sup> Sch.	Provides for a deduction of environmental restoration and rehabilitation costs or amounts paid into the Environmental Protection Fund	3.13
12	5 <sup>th</sup> Sch	Substitutes “any former Zambia Consolidated Copper Mining Company” with “any mining company holding a large scale mining licence and carrying on the mining of base metals	3.14
13	Charging Sch.	Increases the exempt income threshold and widens the tax bands	3.15
14	Charging Sch.	Lowers the upper tax rate for banks	3.16
15	Charging Sch.	Provides for a 25% company tax rate for any company holding a large scale mining licence and carrying on the mining of base metals	3.17
16	Charging Sch.	Provides for a 0% withholding tax on dividends paid by any company holding a large scale mining licence and carrying on the mining of base metals	3.18
17	Charging Sch.	Provides for a 0% withholding tax on interest, royalties or management fees paid by any company holding a large scale mining licence and carrying on the mining of base metals	3.19

**Mines and  
Minerals  
Act**

18	Sec 1	Title and commencement	4.1
19	Sec 2	Removes the definition of former Zambia Consolidated Copper Mining Company and introduces a definition of “base metal”	4.2
20	Sec 2	Introduces the definition of Commissioner-General	4.3
21	Sec 66	Provides for a 0.6% mineral royalty rate for any company holding a large scale mining licence and carrying on the mining of base metals	4.4
22	Sec 66	Provides for the date by which mineral royalty shall be paid	4.5
23	Sec 66 A	Specifies due date for the submission of monthly mineral royalty returns	4.6

### **3.0 COMMENTARY ON AMENDMENTS TO THE INCOME TAX ACT**

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

The amendments to the Income Tax Act shall come into effect on 1<sup>st</sup> April 2006.

#### **3.2 SECTION 2: DEFINITION**

The amendment removes the definition of “ Former Zambia Consolidated Copper Mining Company” and introduces a definition of “base metal”. “Base metal” means a non- precious metal that is either common or more chemically active, or both common and chemically active and includes iron, copper, nickel, aluminium, lead, zinc, tin, magnesium, cobalt, manganese, titanium, scandium, vanadium and chromium.

#### **3.3 SECTION 30: CARRY FORWARD OF LOSSES**

This amendment provides for any mining company holding a large-scale mining licence issued under the Mines and Minerals Act and carrying on the mining of base metals to carry forward their losses up to a maximum of 10 years. Before this amendment, only former Zambia Consolidated copper mining companies were entitled to carry forward their losses for a maximum of 10 years.

#### **3.4 SECTION 30A: INDEXATION OF LOSSES**

The amendment introduces the indexation of carried forward losses for any mining company holding a large-scale mining licence issued under the Mines and Minerals Act and carrying on the mining of base metals.

This measure allows mining companies to maintain real values of their losses carried forward by linking the loss to the exchange rate of the Kwacha to the United States Dollar.

#### **INDEXATION FORMULA**

$$\left\langle 1 + \frac{(R_2 - R_1)}{R_1} \right\rangle \times \text{loss brought forward}$$

Where:

$R_1$  = The Kwacha against the United States Dollar exchange rate ruling on the last day of the preceding accounting year in which the loss is being claimed.

$R_2$  = The Kwacha against the United States Dollar exchange rate ruling on the last day of the accounting year in which the loss is being claimed.

The rate to be used for this purpose is the Bank of Zambia mid-rate at the end of the accounting period.

**Example 1: Company A**

Charge Year: 2004/2005

Accounting date: 31<sup>st</sup> March

Losses carried forward K120,000,000,000

BOZ Mid rate US\$/ZMK exchange rate @ 31<sup>st</sup> March 2005 = K4,000

Charge Year: 2005/2006

Profit for the year = K20,000,000,000

BOZ Mid rate US\$/ZMK exchange rate @ 31<sup>st</sup> March 2006 = K3,000

The loss brought forward is computed as follows;

$$\left\langle 1 + \frac{(3000 - 4000)}{4000} \right\rangle \times 120,000,000,000 = \mathbf{90,000,000,000}$$

Tax computation for 2005/2006 charge year:

Profit	20,000,000,000
Less loss b/f	<u>90,000,000,000</u>
Loss c/f	<b><u>(70,000,000,000)</u></b>



**Example 2: Company B**

Charge Year: 2004/2005

Accounting date: 31<sup>st</sup> March

Losses carried forward K120,000,000,000

BOZ Mid rate US\$/ZMK exchange rate @ 31<sup>st</sup> March 2005 = K2,000

Charge Year: 2005/2006

Profit for the year = K20,000,000,000

BOZ Mid rate US\$/ZMK exchange rate @ 31<sup>st</sup> March 2006 = K4,000

The loss brought forward is computed as follows;

$$\left\langle 1 + \frac{(4000 - 2000)}{2000} \right\rangle \times 120,000,000,000 = \mathbf{240,000,000,000}$$

Tax computation for 2005/2006 charge year:

Profit	20,000,000,000
Less loss b/f	<u>240,000,000,000</u>
Loss c/f	<b><u>(220,000,000,000)</u></b>

**3.5 SECTION 33: INDEXATION OF CAPITAL ALLOWANCES**

The amendment introduces the indexation of capital allowances for any mining company holding a large-scale mining licence issued under the Mines and Minerals Act and carrying on the mining of base metals.

This measure allows mining companies to maintain real tax values of their capital allowances by linking the allowance to the exchange rate of the Kwacha to the United States Dollar.

### INDEXATION FORMULA

$$\left( 1 + \frac{R_2 - R_1}{R_1} \right) \times \text{capital allowance}$$

Where:

$R_1$  = The Kwacha against the United States Dollar exchange rate ruling on the last day of the preceding accounting year in which the loss is being claimed.

$R_2$  = The Kwacha against the United States Dollar exchange rate ruling on the last day of the accounting year in which the loss is being claimed.

The rate to be used for this purpose is the Bank of Zambia mid-rate at the end of the accounting period.

#### Example 1: Company M

Charge Year: 2004/2005

Accounting date: 31<sup>st</sup> March

Profit for the year K 50,000,000,000

BOZ Mid rate US\$/ZMK exchange rate @ 31<sup>st</sup> March 2005 = K4,000

Cost of office equipment K10,000,000,000 (bought in the charge year)

#### Capital allowance computation

Cost	10,000,000,000
Wear and tear @ 25%	<u>2,500,000,000</u>
I.T.V	<u><b>7,500,000,000</b></u>

#### Tax computation

Profit	50,000,000,000
Less Capital allowances	<u>2,500,000,000</u>
<b>Taxable profit</b>	<b><u>47,500,000,000</u></b>

Charge Year: 2005/2006

Profit for the year = K70,000,000,000

BOZ Mid rate US\$/ZMK exchange rate @ 31<sup>st</sup> March 2006 = K3,000

### **Capital allowance computation**

I.T.V b/f	7,500,000,000
Wear and tear @ 25%	<u>2,500,000,000</u>
I.T.V c/f	<b><u>5,000,000,000</u></b>

### **Indexation of capital allowances**

$$\left\langle 1 + \frac{(3000 - 4000)}{4000} \right\rangle \times 2,500,000,000 = \mathbf{1,875,000,000}$$

### **Tax computation**

Profit	70,000,000,000
Less capital allowances	<u>1,875,000,000</u>
<b>Taxable profit</b>	<b><u>68,125,000,000</u></b>

### **Example 2: Company N**

Charge Year: 2004/2005

Accounting date: 31<sup>st</sup> March

Profit for the year K 40,000,000,000

BOZ Mid rate US\$/ZMK exchange rate @ 31<sup>st</sup> March 2005 = K4,000

Cost of office equipment K10,000,000,000 (bought in the charge year)

### Capital allowance computation.

Cost	10,000,000,000
Wear and tear @ 25%	<u>2,500,000,000</u>
I.T.V	<u><b>7,500,000,000</b></u>

### Tax computation

Profit	40,000,000,000
Less Capital allowances	<u>2,500,000,000</u>
<b>Taxable profit</b>	<u><b>37,500,000,000</b></u>
<u>Charge Year: 2005/2006</u>	

Profit for the year = K60,000,000,000

BOZ Mid rate US\$/ZMK exchange rate @ 31<sup>st</sup> March 2006 = K5,000

### Capital allowance computation

I.T.V b/f	7,500,000,000
Wear and tear @ 25%	<u>2,500,000,000</u>
I.T.V c/f	<u><b>5,000,000,000</b></u>

### Indexation of capital allowances

$$\left\langle 1 + \frac{(5000 - 4000)}{4000} \right\rangle \times 2,500,000,000 = \mathbf{3,125,000,000}$$

### Tax computation

Profit	60,000,000,000
Less capital allowances	<u>3,125,000,000</u>
<b>Taxable profit</b>	<u><b>56,875,000,000</b></u>

## 3.6 SECTION 81 AA: PERMANENT ESTABLISHMENT.

The amendment introduces a definition of the term “permanent establishment” in line with the provisions of the Organisation for Economic Co-operation and Development (OECD) guidelines on international taxation.

### **3.7 SECTION 81B: TAX CLEARANCE EXEMPTIONS**

Section 81B of the Income Tax Act prohibits any person or partnership from transacting with any supplier of goods or services who does not have a tax clearance certificate.

The amendment has now introduced tax clearance exemption threshold as below:

- (a) Where goods or services of a value not exceeding K200,000 per transaction are supplied by a person or partnership, no tax clearance certificate shall be required.
- (b) Where agricultural products of a value not exceeding K1,500,000 per transaction are supplied by a person or partnership, no tax clearance certificate shall be required

N.B Agricultural products include cereals, livestock, fruits, vegetables, fish etc.

### **3.8 FIRST SCHEDULE PARA 9: REFUND FROM ENVIROMENTAL PROTECTION FUND**

Companies carrying on mining operations are required to make contributions to the Environmental Protection Fund under the Mines and Minerals Act.

This amendment classifies as income any refunds to the mining companies from the Environmental Protection Fund.

### **3.9 SECOND SCHEDULE PARA 7 (u)**

Tax incentives under the Small Enterprises Development Act, were not cited in the Income Tax Act. This amendment now incorporates the following tax incentives for enterprises designated as micro or small enterprises and approved under the Small Enterprises Development Act:

- (a) Exemption from Income tax for the first three years for an enterprise located in an urban area.

- (b) Exemption from Income tax for the first five years for an enterprise located in a rural area

Rural area is defined as “any area which is not an area declared or deemed to have been declared an area of any city or municipality under the Local Government Act (Cap 281) but excluding the area declared to be the area of the Kafue township under the said Act”.

### **3.10 SECOND SCHEDULE PARA 7 (y)**

This amendment exempts the taxation of dividends earned by individuals from a company listed on the Lusaka Stock Exchange.

### **3.11 SECOND SCHEDULE PARA 7 (z)**

This amendment exempts the taxation of dividends declared by companies assembling motor vehicles, motorcycles and bicycles. The exemption is limited to a period of five years starting from the date of the initial declaration of dividends.

### **3.12 SECOND SCHEDULE PARA 7 (aa)**

The amendment exempts the taxation of dividends declared by companies approved under the Small Enterprises Development Act for a period of five years from the date of first declaration.

### **3.13 FIFTH SCHEDULE PARA (22)(8)**

Companies carrying on mining operations are required to restore and rehabilitate the environment. The cost incurred in restoring and rehabilitating the environment was not allowed as a deduction under the Income Tax Act.

This amendment allows as a deduction the actual costs incurred on rehabilitation and restoration works or contributions made to the Environmental Protection Fund. The actual contributions to the Fund will only be allowed as a deduction upon proof of payment.

### **3.14 FIFTH SCHEDULE PARA (23)**

This amendment removes any reference to the words “any Zambia Consolidated Copper Mining Company” wherever they appear and substituting them with the words “any mining company holding a large-scale

mining licence issued under the Mines and Minerals Act and carrying on the mining of base metals”.

**3.15 CHARGING SCHEDULE CLAUSE (c), (d), (e) AND (f) OF SUBPARAGRAPH 1 OF PARAGRAPH 2**

The amendment increases the annual tax-free income threshold for individuals from K3,360,000 to K3,840,000.

This means that an individual who earns up to K320,000 per month or K3,840,000 per annum shall not pay income tax.

The income of an individual is taxed as follows:

<b>Income Bands</b>	<b>Rates</b>
First K3,840,000	@ 0%
Between K3,840,001 and up to K13,698,240	@ 30%
Between K13,698,241 and up to K68,466,240	@ 35%
Above K68,466,240	@ 37.5%

**3.16 CHARGING SCHEDULE CLAUSE (d) SUBPARAGRAPH 1 OF PARAGRAPH 3**

This amendment lowers the upper tax rate for banks from 45% to 40%. The income of banks is taxed as follows:

The first K250,000,000 @ 35%  
Above K250,000,000 @ 40%

**3.17 CHARGING SCHEDULE CLAUSE (e) SUBPARAGRAPH 1 OF PARAGRAPH 3**

This amendment provides for a 25% company tax rate for any mining company holding a large-scale mining licence issued under the Mines and Minerals Act and carrying on the mining of base metals.

**3.18 CHARGING SCHEDULE CLAUSE (c) OF SUB PARAGRAPH 1 OF PARAGRAPH 6**

This amendment provides for a 0% withholding tax rate on dividends paid by any mining company holding a large-scale mining licence issued under the Mines and Minerals Act and carrying on the mining of base metals.

### **3.19 CHARGING SCHEDULE SUB PARAGRAPH 4 OF PARAGRAPH 7**

This amendment provides for a 0% withholding tax rate on interest, royalties or management fees paid by any mining company holding a large-scale mining licence issued under the Mines and Minerals Act and carrying on the mining of base metals to its shareholders or affiliates or any lender of money.

## **4.0 COMMENTARY ON AMENDMENTS TO THE MINES AND MINERALS ACT**

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

The amendments to the Mines and Minerals Act shall come into effect on 1<sup>st</sup> April 2006.

### **4.2 SECTION 2: DEFINITIONS**

The amendment removes the definition of “ Former Zambia Consolidated Copper Mining Company” and introduces a definition of “base metal”.

*“Base metal”* means a non- precious metal that is either common or more chemically active, or both common and chemically active and includes iron, copper, nickel, aluminium, lead, zinc, tin, magnesium, cobalt, manganese, titanium, scandium, vanadium and chromium.

### **4.3 SECTION 2: DEFINITIONS**

The amendment introduces the definition of “Commissioner-General.”

“Commissioner-General” means Commissioner-General appointed under the Zambia Revenue Authority Act.

### **4.4 SECTION 66(1): ROYALTIES**



This amendment provides for a 0.6% mineral royalty rate for any mining company holding a large-scale mining licence and carrying on the mining of base metals.

**Mineral royalty is charged as follows:**

Category	Mineral Royalty Rate
Holder of a large scale mining licences and carrying on mining of base metals	0.6%
Holder of a gemstone licence or small scale mining licence or an artisan mining right to mine gemstones, base metals or precious metals	5%
Holder of any other mining licence	2%

**Computation of mineral royalty**

The computation of mineral royalty is based on the gross value of minerals produced.

“Gross value,” means the realized price for a sale free on board (FOB) at the point of export from Zambia or point of delivery within Zambia.

**4.5 SECTION 66(2): ROYALTIES**

The amendment specifies that mineral royalty is due and payable within 14 days after the end of the month in which the sale of minerals is done.

N.B a penalty of 5 % per month or part thereof is charged on late payments of mineral royalty as provided for in Sec 78 of the Income Tax Act. Further, interest is levied on overdue payments.

**4.6 SECTION 66A: ROYALTIES**

The amendment specifies that monthly mineral royalty returns are due within 14 days after the end of the month.

N.B a penalty of K180,000 for individuals or K360,000 for companies is charged per month or part thereof for failure to submit a monthly mineral royalty return.

## **5.0 OTHER MATTERS**

### **5.1 TAXATION OF BENEFITS**

#### **(i) Payment of employees' bills**

Where an employer, discharges the liability of an employee by paying, his or her rent, electricity, telephones, water bills, school fees or association and club membership fees etc., 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 Cash**

Benefits, which cannot be converted into cash, 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)).

- (a) In the case of free residential accommodation provided by an 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.

(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 above)  
K20,000,000 per annum.

Other cars

(ii) (above 1800cc and below 2800cc):  
K15,000,000 per annum.

(iii) (below 1800 cc)  
K9,000,000 per annum

N.B. A personal - to - holder vehicle means a vehicle provided for an employee's 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 allowance
- Domestic Utility allowances e.g. for electricity, telephone, and water.
- Commuted car allowance
- Settling in allowance

## 5.2 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 chargeable emoluments from which PAYE tax is to be deducted:

(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 (ITA Para. 7 (t), 2<sup>nd</sup> Schedule).

(ii) **Labour Day Awards:**

Labour Day awards paid to employees either in cash or in kind are regarded by ZRA as non – taxable.

(iii) **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 (S.I No. 104 of 1996).

(iv) **Funeral Expenses:**

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

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

Payments by Local Authorities to councillors as Sitting Allowances are exempt (ITA 2<sup>nd</sup> Schedule Para. 7(s)).

### **5.3 TAX TREATMENT OF EXPENSES INCURRED ON ENTERTAINMENT, HOSPITALITY AND GIFTS**

Expenses incurred in 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, this is allowable.
- c) Where an employer provides entertainment or hospitality for employees, e.g. meals, accommodation etc. on business trips or a Christmas party for employees, this is allowable.
- d) Where a person gives gifts which bear an advertisement for the donor, e.g. calendars, pens, ashtrays, spirits, food, etc. and the cost of the gift to any one

person does not exceed K25,000, this is allowable. Costs in excess of K25,000 to the same person would be disallowable.

- e) Employees receiving entertainment allowances would be chargeable and the amount would be disallowable to the employer. 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.

#### **5.4 TAX TREATMENT OF 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.

#### **5.5 PAYMENTS ON CESSATION OF EMPLOYMENT**

Payments on cessation of employment fall into the following categories;

- (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 being made redundant;
- (d) Payments made to an employee on retirement; and
- (e) Payments made on termination of employment due to death.

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

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

- Emolument (i.e. salary, wage, overtime, leave pay, commission, bonus, fee etc.)
- Cash in lieu of leave (leave days due but not taken)
- Salary in lieu of notice

- Severance pay

These payments are taxable by reference to the PAYE Tax Tables applicable for the month in which the payment is made and do not qualify for the K10 million 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) 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 payment is made.

- Gratuity paid is taxed at the graduated rates of tax, as follows;

Qualifying gratuity Bands	Rates
First K3,840,000	@ 0%
Between K3,840,001 and up to K13,698,240	@ 30%
Between K13,698,241 and up to K68,466,240	@ 35%
Above K68,466,240	@ 37.5%

Non - qualifying gratuity is added to the salary for the month in which it is paid and taxed with reference to the appropriate P.A.Y.E tax table.

**(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 and Salary in lieu of Notice are taxed under PAYE in the month in which they are paid;
- Accrued service bonuses, repatriation pay, severance pay and compensation for loss of office are added together and taxed as follows:
  - The first K10 million 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 under a defined contribution scheme 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 (Fourth Schedule)
- (v) Accrued service bonuses
- (vi) Severance Pay

The above payments are taxed as follows:

- Salary and Leave Pay are taxed under PAYE in the month in which payment is made.

- Repatriation Pay, Severance pay, Accrued Service Bonuses, and compensation for loss of office are added together and taxed as follows:
- The first K10 million is exempt from tax and the balance is taxed at 10%
- Pension is exempt from tax (2<sup>nd</sup> schedule).

### **(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) Ex-gratia payment
- (v) Accrued service bonuses

The above payments are taxed as follows:

- The salary up to date of death and leave pay is taxed under PAYE in the month in which payments are made.
- Gratuity is taxed as in paragraph 4.5(b).
- Ex-gratia payments are exempt from tax.
- Where an employee dies when he is eligible for retirement, the tax treatment of payments made is the same as early or normal retirement in 4.5(d) above.

### **5.6 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.

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



Where the employer, on medical advice, determines that an employee is permanently incapable of discharging his duties through infirmity of mind or body, he may terminate the services of an employee.

With effect from 1<sup>st</sup> April 2001, a lump sum payment made to an employee on termination of employment on medical grounds is exempt from tax.

## **5.8 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.

## **5.9 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 the 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 Cap 323.

## **5.10 INCOME TAX RATES**

### **(a) Personal Income Tax Rates:**

Personal Income tax rates, with effect from 1<sup>st</sup> April 2006, are as follows:

<b>Income Bands</b>	<b>Rate (%)</b>
First K3,840,000	0
Between K3,840,001 and up to K13,698,240	30
Between K13,698,241 and up to K68,466,240	35
Above K68,466,240	37.5

### **(b) Other Tax Rates**

<b>Category</b>	<b>Rate (%)</b>
Any company holding a large scale mining licence carrying on mining of base metals	25
Other Mining companies	35
Manufacturing & other companies	35
Charitable organisations (on income from business)	15
Farming	15
Non traditional exports	15
Chemical manufacture of fertilizer	15
Trusts, deceased or bankrupt estates	35
Rural enterprises	Tax chargeable reduced by 1/7 for 5 years
Banks: First K250,000,000	35
Above K250,000,000	40

- (c) Withholding Tax Rates for holders of large scale mining licence and carrying on mining of base metals

<b>Category</b>	<b>Rate (%)</b>
Interest, royalties or management fees payable to affiliates, shareholders or any lender of money	0
Dividends	0
Rents	15
Commissions	15
royalties or management payable to persons other than affiliates and shareholder	15
Non resident contractors	15
Public Entertainment Fees (Non residents and it is final tax)	15

(d) Other Withholding Tax Rates

<b>Category</b>	<b>Rate (%)</b>
Dividends for individuals and companies (final tax)	15
Interest on GRZ bonds (final tax)	15
Interest for individuals (earned from bank deposits) K750,000 p.a. is exempt, (final tax)	25
Interest on treasury bills for individuals (final tax)	25
Interest on treasury bills for charitable organisations (final tax)	15
Interest for companies( it is not the final tax)	15
Royalties, Management and Consultancy Fees	15
Rents	15
Commissions	15
Public entertainment fees (non- residents and it is the final tax)	15
Non -resident contractors	15

N.B. When interest is awarded by Courts of Law it is still regard as “*interest*” and withholding tax should be deducted in accordance with the appropriate rates as above.

**6.0 DIRECT TAXES CONTACT ADDRESSES:**

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

1. Advice Centre  
2<sup>nd</sup> Floor Revenue House  
Private Bag W136  
LUSAKA  
Tel: 226227/236227  
Fax 222717
2. Assistant Commissioner  
Lusaka “A” Tax Office  
P.O. Box 31926  
LUSAKA  
Tel: 221497
3. Assistant Commissioner
4. Assistant Commissioner

Lusaka "B" Tax Office  
P.O. Box 31936  
LUSAKA  
Tel: 221496

Lusaka "C" Tax Office  
P.O. Box 31988  
LUSAKA  
Telefax: 01-236892

5. Assistant Commissioner  
Ndola Tax Office  
P.O. Box 70181  
NDOLA  
Tel: 02- 614694  
Fax: 02- 614096

6. Assistant Commissioner  
Kitwe Tax Office  
P.O. Box 20855  
KITWE  
Tel: 02-230362  
Fax:02-229942

7. Assistant Commissioner  
Lusaka Taxes Central Unit  
P.O Box 35710  
LUSAKA  
Telefax: 01-224935  
Fax: 01- 224935

8. Assistant Commissioner  
International & Coordination  
P.O Box 35710  
LUSAKA  
Telefax: 01-221493

9. Station Manager  
Kabwe Tax Office  
P.O Box 80909  
KABWE  
Telefax: 05-223642

10. Station Manager  
Chipata Tax Office  
P.O. Box 510632  
CHIPATA  
Telefax: 06-221155

11. Station Manager  
Mongu Tax Office  
P.O. Box 910110  
MONGU  
Telefax: 07- 221380

12. Station Manager  
Mongu Tax Office  
P.O. Box 910110  
MONGU  
Telefax: 07-221380

13. Station Manager  
Kasama Tax Office  
P.O. Box 410728  
KASAMA  
Telefax: 04- 221810

14. Station Manager  
Livingstone Tax Office  
P.O. Box 60597  
LIVINGSTONE  
Telefax: 03-320772

15. Station Manager  
Solwezi Tax Office  
P.O. Box 110368  
SOLWEZI  
Telefax: 08-821682

16. Advice Centre  
Nchanga House  
P.O.Box 20454  
KITWE  
Telefax: 02-229301

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