ZAMBIA REVENUE AUTHORITY

DOMESTIC TAXES DIVISION

INCOME TAX (AMENDMENT) ACT 2007

VALUE ADDED TAX (AMENDMENT) ACT 2007

MINES AND MINERALS (AMENDMENT) ACT 2007

PRACTICE NOTE NO. 1/2007

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1.0 GENERAL

This **PRACTICE NOTE** describes the various changes introduced by the Income Tax (Amendment) Act 2007; Mines and Minerals (Amendment) Act 2007.and the Value Added Tax (Amendment) Act 2007

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, Domestic Taxes Division or Customer Services Centres, in Lusaka and Kitwe.

COMMISSIONER-GENERAL

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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 1st April 2007.

3.2 SECTION 2: INTERPRETATION

3.2.1 Dividend - The definition of "dividend" has been amended by the deletion of the words "or any amount deemed to have been distributed pursuant to the provisions of section *ninety-five*". This is meant to correct a drafting error as the said reference became obsolete following the amendment of section *ninety-five*.

3.2.2 Effective Shareholder – the definition has been amended by insertion of the word "with" after the words "either alone or". This is meant to correct a drafting error, as the word "with" was inadvertently omitted.

3.2.3 Management or Consultant Fee - introduces a new definition of "management or consultant fee", as - *"a payment in any form, other than an emolument, for or in respect of any creation, design, development, installation and maintenance of any information technology or solution, programme or system, administrative, consultative, managerial, technical, or any other service of a like nature*". The amendment seeks to make it clear that information communication technology (ICT) services are included in the definition of "management or consultant fee".

3.2.4 Finance Lease – introduces a definition of "finance lease", as a *"lease of implements, machinery, or plant where – (i) the term of the lease, including any period under an option to renew, is equal to or exceeds seventy five per centum of the effective life of the leased implement, plant or machinery; (ii) the lessee has an option to purchase the implement, plant or machinery at the expiration of the lease for a fixed or determinable price; (iii) the estimated residual value of the implement, plant or machinery at the expiration of the lease term is less than twenty-five per centum of its fair market value at the commencement of the lease; or (iv) the lessor does not retain the risks & rewards of ownership."* The introduction of this definition has been done to facilitate the new tax treatment of a finance lease that recognises its commercial substance as that of a loan. See paragraph 3.10.2 for new tax treatment.

3.2.5 **Mining Operations -** a new definition has been introduced to mean *"any operation carried out under a mining right referred to in section six of the Mines & Minerals Act, but does not include operations including only mineral processing".* This has been done to harmonise the definition with the Mines & Minerals Act and to distinguish it from Mineral Processing, which falls under the ambit of Manufacturing. Any person solely carrying out mineral processing is not considered to be carrying out mining operations and therefore not entitled to the incentives there under.

3.3 SECTION 21(5): APPORTIONMENT OF GRATUITIES & COMPENSATION FOR LOSS OF OFFICE

This amendment provides for the increase in the exempt threshold of terminal benefits from ten million kwacha to twenty million kwacha.

3.4 SECTION 37: APPROVED FUND DEDUCTIONS

This amendment provides for the increase in the allowable pension contribution from fifteen thousand kwacha per month or one hundred and eighty thousand kwacha per annum to one hundred and thirty five thousand kwacha per month or one million six hundred and twenty thousand kwacha per annum.

3.5 SECTION 63(1)(v): COMMISSIONER-GENERAL'S POWER TO ASSESS

The amendment prohibits the Commissioner-General from assessing interest earned from Government Bonds by individuals; or charitable institution, body, person or trust exempted under Paragraph 5(1) & Paragraph 6(1) of the Second Schedule, which has been subjected to withholding tax. This means that the withholding tax deducted from the persons above is the final tax. As for other persons, the interest earned from Government Bonds shall be assessable.

3.6 SECTION 64A(2): TURNOVER TAX

The amendment provides for the exclusion from Turnover Tax for persons who opt for voluntary registration under the Value Added Tax Act. This means such persons will now be eligible to register for Income Tax despite their turnover being below the two hundred million threshold.

3.7 SECTION 71(1): ASSESSMENT, CHARGE, COLLECTION & RECOVERY

The amendment provides for the separate taxation of business income under turnover tax and employment income.

3.8 SECTION 81C: ADVANCE TAX ON INCOME IN RESPECT OF IMPORTED GOODS

This amendment introduces an Advance Tax on income in respect of imported goods for commercial purposes but excludes goods imported for personal use.
The measure is intended to broaden the tax base by capturing unregistered business importers who make commercial imports.

Computation of Advance Tax on Income in respect of Imported Goods – The tax will computed at the point of entry at the rate of three per centum of the Value for Duty Purposes (VDP) of the goods and it is not the final tax.

Goods for commercial purposes include goods intended for resale, for provision of services or for use in the business. For example, the following importations will attract Advance Import Tax as these goods are considered to be for commercial purposes:

(a) Goods for Resale - A boutique owner imports clothes for resale.
(b) Goods for Provision of Services – A barber imports hair clippers.
(c) Goods for Use in the Business – A manufacturer of biscuits imports a computer for his accounting department.

Goods imported for personal use are those not intended for business and bought for private or domestic use.

Exemptions - Advance Import Tax shall not be imposed on the following:

(a) Goods imported for personal use;
(b) Persons, Partnerships & Organisations exempted by Statutory Instrument 29 of 2007:
    - Government Ministries;
    - Organisations whose income is exempt from tax under paragraph 4 part II of the Second Schedule to the Income Tax Act;
    - Organisations whose income is exempt from tax under paragraph 5 part III of the Second Schedule to the Income Tax Act;

- Organisations whose income is exempt from tax under paragraph 6(1) part III of the Second Schedule to the Income Tax Act;
- Any Person or Partnership with a valid Tax Clearance Certificate & TPIN issued by the Commissioner-General.

Refunds Procedures – A refund may be due to the importer who has paid Advance Import Tax and fulfils the following conditions;

- The Importer must be registered for Income or Turnover Tax;
- The Importer must submit an Income Tax Return or a Turnover Tax Remittance Card at the end of the respective Charge Year;
- The importer must provide proof of payment such as receipts and any other relevant documents
- The importer must make a claim, which will be subject to the refund processes as outlined in section *eighty-seven* of the Income Tax Act.

3.9 SECOND SCHEDULE PARAGRAPH 7(u)

The amendment has introduced the following tax incentives for a person designated as a micro or small enterprise under the Zambia Development Agency 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

3.10 FIFTH SCHEDULE

3.10.1 Paragraph 4A Deduction of Improvement Allowance - this amendment introduces a deduction of an Improvement Allowance at one hundred per centum of the original cost.

"*In ascertaining for any charge year the business profits of any person approved under the Zambia Development Agency Act, 2006 which in that year uses for business an industrial or commercial building which the person has constructed, or altered, a deduction, shall be allowed (called improvement allowance) for that charge year at a per centum of original cost to such person as set out in Part V*".

This allowance strictly applies to constructed or altered buildings, and not purchased ones. This measure is intended to encourage construction of new buildings. This allowance is in addition to other existing capital allowances.

3.10.2 Paragraph 10(2) Wear & tear Allowances for Implements, machinery & Plant – this amendment provides for any person who acquires implements, machinery or plant through a finance lease (lessee) to claim capital allowances. This means that leasing companies (lessor) shall no longer claim capital allowances on assets leased through a finance leases. However, they will continue to claim capital allowances on assets leased through an operating lease.

3.10.3 Paragraph 18 Rates of Initial and Wear & Tear Allowances – the amendment introduces a one hundred per centum rate for Improvement Allowance on Commercial & Industrial Buildings.

3.10.4 Paragraph 22A Disallowance of Interest in Certain Areas – the amendment has reduced the Debt to Equity Ratio for Mining Companies from 2 to 1 to 3 to 1.

3.11 CHARGING SCHEDULE

3.11.1 Paragraph 1(1)(b) Tax Credit - the amendment increases the Tax Credit for Persons with Disabilities from K36, 000 to K144, 000 per annum.

3.11.2 Paragraph 2(1)(c)(d)(e)(f) Rates of Tax -

The amendment increases the annual tax-free income threshold for individuals from K3, 840,000 to K6, 000,000.

This means that an individual who earns up to K500, 000 per month or K6, 000,000 per annum shall not pay income tax.

The income of an individual is taxed as follows:

Income Bands	**Rates**
First K6, 000,000	@ 0%
Between K6, 000,001 and up to K14, 400,000	@ 25%
Between K14, 400,001and up to K62, 400,000	@ 30%
Above K62, 400,001	@ 35%

3.11.3 Paragraph 3(1)(e) Rates of Tax - Companies

This amendment increases the company tax rate from 25% to 30% for any mining company holding a large scale mining licence issued under section *twenty-five* of the Mines & Minerals Act and carrying on the mining of base metals.

However, any mining company holding a large scale mining licence issued under section *twenty-five* of the Mines & Minerals Act and carrying on the mining of base metals and is a party to a development agreement signed prior to 1st April 2007, pursuant to section *nine* of the Mines & Minerals Act, shall after the commencement of this Act renegotiate with the government the rate of tax to be paid by such company and any such rate which is agreed upon in the negotiations shall be the rate payable under the development agreement.

3.11.4 Paragraph 5(e)& 5(f) Rates of Tax – Special Cases

This amendment introduces the following tax incentives for any business enterprise operating in a priority sector declared under the Zambia Development Agency Act, 2006: -

(i) The income tax rate of 0% for a period of 5 years starting from the first year profits are returned;

(ii) The applicable income tax rate shall be reduced by 50% from the 6th to the 8th year after profits are returned;

(iii) The applicable income tax rate shall be reduced by 25% from the 9th to the 10th year after profits are returned;

(iv) 0% tax rate on dividends for a period of 5 years from the date of first declaration.

These incentives apply only to new investments.

3.11.5 Paragraph 6(2) Rates of Tax – Withholding Tax

This amendment introduces a 3% tax rate (Advance Tax on Income in respect of imported goods) on the Value for Duty Purposes (VDP), of the goods imported.

3.11.6 Paragraph 7 Rates of Tax to be Deducted– Withholding Tax

This amendment;

(i) Provides for restriction of withholding tax on Treasury Bills & Government Bonds as final tax only to individuals; or charitable institution, body, person or trust exempted under Paragraph 5(1) & Paragraph 6(1) of the Second Schedule. The applicable withholding tax rate is 15%.

(ii) Increases the rate of withholding tax from 0% to 15% on interest, management or consultant fees, interest & royalties for any mining company holding a large scale mining licence issued under section *twenty-five* of the Mines & Minerals Act and carrying on the mining of base metals.

However, any mining company holding a large scale mining licence issued under section *twenty-five* of the Mines & Minerals Act and carrying on the mining of base metals and is a party to a development agreement signed prior to 1st April 2007, pursuant to section *nine* of the Mines & Minerals Act, shall after the commencement of this Act renegotiate with the government the rate of withholding tax to be paid by such company and any such rate which is agreed upon in the negotiations shall be the rate payable under the development agreement.

3.12 General Amendment

This amendment substitutes the words "section *twenty-three* of the Mines & Minerals Act" wherever they appear in the Income Tax Act with the words "section *twenty-five* of the Mines & Minerals Act". This measure is intended to correct a drafting error.

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 1st April 2007.

4.2 SECTION 2: INTERPRETATION

4.2.1 Mining Operations - the amendment introduces a new definition of "mining operations" means *"any operation carried out under a mining right referred to in section six"*.

4.2.2 Mineral Processing – the amendment introduces the definition of "mineral processing" means *"the practice of beneficiating or liberating valuable minerals from their ores which may combine a number of unit operations such as crushing, grinding, sizing, screening, classification, washing, froth flotation, gravity concentration, electrostatic separation, magnetic separation, leaching, smelting, refining, calcining and gasification and includes other processes incidental thereto"*.

4.3 SECTION 7: CERTAIN PERSONS DISQUALIFIED FROM HOLDING MINING RIGHTS

The amendment prohibits the granting of mining right to an individual or company whose operations consists solely of mineral processing. This means that any person solely carrying out mineral processing shall not be entitled to incentives that are available to persons carrying out mining operations.

4.4 SECTION 9: DEVELOPMENT AGREEMENTS

(i) This amendment provides for development agreements to be subordinate to the Law.
(ii) The amendment further provides for the exclusion of fiscal matters in development agreements.

4.5 SECTION 66(1): ROYALTIES ON PRODUCTION OF MINERALS

a) This amendment introduces a mineral royalty regime for any holder of large scale mining licence, small scale mining licence, gemstone licence or an artisan mining right, based on type of minerals extracted as follows:

(i) 3% of the gross value of the base metals produced under the licence;
(ii) 5% of the gross value of the gemstones or precious metals produced under the licence;
(iii) 2% of the gross value of the minerals other than those in (i) & (ii) above.

Category	Mineral Royalty Rate
Base metals produced under the licence	3%
Gemstones or precious metals produced under the licence	5%
Any other minerals	2%

b) The amendment further provides for an increase in mineral royalty rate from 0.6% to 3% of the gross value of the base metals produced under the licence.

However, any mining company holding a large scale mining licence issued under section *twenty-five* of the Mines & Minerals Act and carrying on the mining of base metals and is a party to a development agreement signed prior to 1st April 2007, pursuant to section *nine* of the Mines & Minerals Act, shall after the commencement of this Act renegotiate with the government the rate of mineral royalty to be paid by such company and any such rate which is agreed upon in the negotiations shall be the rate payable under the development agreement.

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:

> Provided that if the Minister considers that the realised price does not correspond to the price that would have been paid for the minerals if they had been sold on similar terms in a transaction, at arms length, between a willing seller and a willing buyer, a notice may be given to that effect to the licensee, and the amount of the gross value shall be determined in accordance with mechanism contained in section *ninety-seven* A to *ninety-seven* D of the Income Tax Act.

5.0 COMMENTARY ON AMENDMENTS TO THE VALUE ADDED TAX ACT

5.1 SECTION 1 TITLE AND COMMENCEMENT

The amendments to the Value Added Tax Act shall come into effect on 10th February 2007.

5.2 SECTION 2: INTERPRETATION

5.2.1 Disbursements - introduces a definition of "disbursements, as - *"Expenditure incurred by a supplier in the course of providing goods or services to a customer".*

5.3 SECTION 3A: APPLICATION OF THE ACT TO SOLE PROPRIETORSHIP

This amendment introduces guidelines on the treatment of sole proprietorships as follows:

1. Where a person in business as a sole proprietor is a registered supplier, that person shall be taken to be the supplier of any goods or services supplied in the course of the business.
2. Any notice of assessment or other notice given under this Act to a person in business as a sole proprietor may be addressed to the person.
3. Where a person in business as a sole proprietor has several businesses, the aggregate turnovers from the businesses shall be used to determine the eligibility of the person for tax registration.
4. Notwithstanding 3 above, a person who operates several businesses may register the businesses separately if each of the businesses reaches the turnover threshold as prescribed by the minister, by statutory instrument.
5. A person in business as a sole proprietor and running several businesses shall furnish the Commissioner General with details of the businesses

It is important for the Act to distinguish between limited liability enjoyed by companies due to their separate legal entity status and the unlimited liability in the case of sole proprietorships and partnerships.

5.4 SECTION 17A: PROOF OF DISBURSEMENTS

The amendment introduces requirements for proof of disbursements where the taxable supplier must prove to the satisfaction of the Commissioner – General that:

1) The supplier paid a third party whilst acting on behalf of a client;
2) The goods or services were actually provided by the third party;
3) The supplier's outlay is itemized separately from disbursement on the invoice to the client; and
4) The supplier has recovered the exact amount of disbursements paid to the third party.

All the above conditions must be satisfied before expenses can be treated as disbursements for VAT purposes.

5.5 STATUTORY INSTRUMENT NO. 18 OF 2007

This amendment provides for standard rating of supplies made to diplomats and designated officials.

5.6 STATUTORY INSTRUMENT NO. 19 OF 2007

This amendment removes the requirement to legislate Minimum Taxable Values (MTVs) product prices. It further consolidates, the Minimum Taxable Value schedule. Cell phone talk time and bottled mineral water have been included to the said schedule.

Minimum Taxable Value Schedule

No	PRODUCTS
1	Bulk and bagged cement (local and imported)
2	Carbonated drinks (local and imported)
3	Non-carbonated drinks (local and imported)
4	Maheu products
5	Clear beer (local and imported, bottled and canned)
	Opaque beer (bulk and packed)
7	Cigarettes (local and imported)
8	Cell phone talk time (scratch cards)
9	Mineral water (local and imported)

The rationale of the measure is to ease the administration of Minimum Taxable Values by doing away with the requirement to issue Statutory Instruments every time there are changes in prices of the specified products.

5.7 STATUTORY INSTRUMENT NO. 21 OF 2007

This amendment allows businesses to claim 20 percent of the input VAT paid on the purchase of petrol. The VAT paid on the purchase of petrol is currently not allowed as a claim deduction or credit. The objective of the measure is to give some relief to businesses by allowing 20 percent of the VAT paid on the purchase of petrol to be claimed back.

The amendment further excludes a taxable supplier who doesn't register within the time required from claiming input tax incurred 3 months prior to registration.

5.8 STATUTORY INSTRUMENT NO. 22 OF 2007

This amendment provides for standard rating of periodicals.
The amendment further exempts the interest component on finance leases. This measure is intended to bring in line the treatment of interest on finance leases with interest on loans.

5.9 GAZETTE NOTICE NO. 8 OF 2007 GENERAL RULES

5.9.1 Rule 17

This rule reintroduces voluntary registration for suppliers whose turnover is less than K200 million upon satisfaction of prescribed conditions below -

i. Provide a sketch map of the supplier's business location with proof of ownership or tenancy of the premises;
ii. Provide the latest bank statements covering a minimum period of three months;
iii. Provide a business plan and projected cash flow for one year in the case of an intending trader;
iv. Provide the latest financial statements and projected cash flow for one year in the case of an existing business;
v. Provide the certificate of incorporation or registration of the business;
vi. Provide a Tax Clearance Certificate.

A supplier registered under voluntary registration will be required to:

i. Renew the registration every twelve months; and
ii. Notify the Commissioner-General in writing thirty days before the expiry of the twelve-month period of the intention to renew the registration.

5.9.2 Rule 18

This rule prescribes the designated ports of exit where a commercial exporter who has paid Value Added Tax may claim a refund. These ports are:

(a) Chirundu Border Post;
(b) Kazungula Border Post;

(c) Victoria Falls Border Post;
(d) Lusaka International Airport;
(e) Mpulungu Border Post;
(f) Kasumbalesa Border Post;
(g) Mwami Border Post;
(h) Nakonde Border Post.

5.9.3 Rule 20

This rule enables a diplomat or designated official who has paid value added tax in Zambia of eligible goods and services to claim a refund of the tax paid under Section 19 of the Act.

This is because it has become necessary to streamline the handling of refunds to improve efficiency.

6.0 OTHER MATTERS

6.1 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 school association fees, 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.

(ii) **Other Cars**

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

- 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

6.2 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), 2nd 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 2nd Schedule Para. 7(s)).

6.3 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.

6.4 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.

6.5 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 K20 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 K6, 000,000	@ 0%
Between K6, 000,001 and up to K14, 400,000	@ 25%
Between K14, 400,001and up to K62, 400,000	@ 30%
Above K62, 400,001	@ 35%

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 K20 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 K20 million is exempt from tax and the balance is taxed at 10%
- Pension is exempt from tax (2nd 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.

5.0 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.

6.7 LUMPSUM 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 1st April 2001, a lump sum payment made to an employee on termination of employment on medical grounds is exempt from tax.

6.8 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.

6.9 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.

6.10 INCOME TAX RATES

(a) Personal Income Tax Rates:

Personal Income tax rates, with effect from 1st April 2007, are as follows:

Income Bands	**Rate (%)**
First K6, 000,000	@ 0%
Between K6, 000,001 and up to K14, 400,000	@ 25%
Between K14, 400,001and up to K62, 400,000	@ 30%
Above K62, 400,001	@ 35%

(b) **Other Tax Rates**

Category	**Rate (%)**
Any company holding a large scale mining licence carrying on mining of base metals	30
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
Business enterprise operating in a priority sector declared under the Zambia Development Agency Act, 2006	O% for the 1st 5 years
	Rate reduced by 50% from 6-8 years
	Rate reduced by 25% from 9-10 years
Banks: First K250, 000,000 Above K250, 000,000	35 40

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

Category	**Rate (%)**
Interest, royalties or management fees payable to affiliates, shareholders or any lender of money	15
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

Category	**Rate (%)**
Dividends for individuals and companies (Final Tax)	15
Interest on GRZ bonds (Final Tax for Individuals & Exempt Organisations only)	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 (Final Tax for Exempt Organisations)	15
Interest for Companies (it is **NOT** the Final Tax)	15
Royalties, Management and Consultancy Fees	15
Rents	15
Commissions	15
Public Entertainment Fees for Non- Residents (Final Tax)	15
Non -Resident Contractors	15

Notes:

(i) When interest is awarded by Courts of Law it is still regarded as "Interest" and withholding tax is deductible in accordance with the appropriate rates as above.

(ii) The term "Royalty" includes leasing and therefore leasing withholding tax.

7.0 DOMESTIC TAXES CONTACT ADDRESSES:

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

1. Advice Centre
   2nd Floor Revenue House
   Private Bag W136
   LUSAKA
   Tel: 01-226227/236227

2. Assistant Commissioner
   Lusaka "A" Tax Office
   P.O. Box 31926
   LUSAKA
   Tel: 01-221497

Fax: 222717

3. Assistant Commissioner
Lusaka “B” Tax Office
P.O. Box 31936
LUSAKA
Tel: 01-221496

4. Assistant Commissioner
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- 221662

12. Station Manager
Mansa Tax Office
P.O. Box 710112
MANSA
Telefax: 02-821147

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

16. Advice Centre
Nchanga House
P.O. Box 20454
KITWE

Telefax: 08-821682 Telefax: 02-229301

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