

payment is due or made contravenes the provision of the VAT Act with respect to when VAT is due.

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

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

## 6. SPECIAL CASES

### I) Construction of Domestic Building

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

### II) Zero-Rated Construction Services

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

- a) the supply of services to a donor in Zambia for official purposes of that donor;
- ii) services supplied under a technical aid programme or project which are:
  - a) paid for through donor funding or funding from the Government where the programme or project is co-financed by the donor and the Government; and
  - b) provided by the donor or by a contractor of the donor, under a written agreement with the Republic of Zambia.
- iii) services supplied under a technical aid agreement or project providing for exemption from Zambian taxation which is either:
  - a) dated on or before 30th June, 1996; or
  - b) approved by the Minister of Finance.

## 7. CLAIMABLE INPUT TAX

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

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

## 8. REMINDERS

- I) VAT registered suppliers are required to submit returns and pay VAT to the Zambia Revenue Authority on or before 18th day of the month after each tax period. Payment must be made by either online payment or bank transfers. The case may be different for taxpayers that are on cash accounting basis.

- II) Late submission of returns attracts an automatic penalty of

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



# A Guide for the Construction Industry - 2022

## 1. INTRODUCTION

This leaflet gives guidance to the construction industry. The services made in the construction industry are made over a long period of time, in some cases covering several tax periods, and thus creating difficulties in determining the tax point and the taxable value. This leaflet helps to explain how Value Added Tax (VAT) applies to the Industry. It should, however, be read in line with the VAT Act, VAT Guide and VAT Liability Guide.

## 2. CONTRACT

The construction industry largely comprises building contractors, road contractors, and sub-contractors. Projects in the industry are governed by a contract which specifies all the terms including:

- a) Frequency of certificate of valuation and terms of payments;
- b) Advance payments;
- c) Payments towards the Certificate of Valuation; and
- d) Retention.

There are formally two types of contracts and these are:

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

## 3. DEFINITIONS

- I) Bill of Quantities** - A report prepared by an independent quantity surveyor specifying list of materials to be used with quantity and price estimates.

The bill of quantities serves as a performance standard for evaluation of the quality of work performed.

- II) Preliminary and General Items** - Cost of setting up and maintaining a project site e.g. material storage facilities
- III) Measured Work** - This is the work done in respect of quantities and costs specified in the bill of quantities.
- IV) Variations and** - This is the work done on the project but was not originally included in the bill of quantities.
- V) Materials** - The cost incurred for all material for the project.
- VI) Retention** - The client withholds a certain percentage of the contract sum (usually 10%) as security and this money is only paid after practical completion of the project or after expiry of the defect liability period.
- VII) Advance** - Normally an advance payment is made to the contractor before the work commences. Advance payments should be treated as part of the taxable value at each stage when such payments are made.
- VIII) Fluctuations** - These take into account changes in prices of materials and wage rates.
- IX) Amounts Previously** - This amount is the sum of all amounts certified in previous stages to date.

## 4. TAXABLE VALUE

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

## ILLUSTRATION

	Amount (K)
Preliminary and General Items	20,000
Measured Works	100,000
Variations and Extra Work	30,000
Materials On/ Off Site	20,000
Sub-total	<b>170,000</b>
Add: Advances 50,000 Fluctuations 60,000	110,000
	280,000
Less: Retention @ 5% Amount previously certified (VAT inclusive)	14,000 120,000
	134,000
Value of Completed Portion of Work (Taxable Value) VAT@ 16% Amount Due on the Completed Portion of Work	146,000 23,360 <b>169,360</b>

## 5. TAX POINT

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

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

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

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