



**ZAMBIA
REVENUE
AUTHORITY** | *My Tax
Your Tax
Our Destiny*



VAT GUIDE

FOREWORD

Every country in the world needs revenue to provide health, education, social services, roads, and a wide range of other facilities for all its citizens. One of the ways Government mobilizes revenue is through taxation and one such tax is a consumption tax called Value Added Tax (VAT).

VAT is an indirect tax which was introduced in Zambia on 1st July 1995 to replace Sales Tax. The advantages of VAT for businesses can be summarized as follows:

- VAT is largely invoice based and therefore uniform and uncomplicated, offering a sound financial management system.
- As a result of increased tax compliance, brought about by the 'self-policing' nature of VAT, there is less distortion of trade.
- VAT gives the potential for a stronger home manufacturing industry and more competitive export prices.
- The input credit mechanism gives registered businesses back much of the tax they pay on purchases and expenses used for making taxable supplies.
- It is a fairer tax than most General Sales Tax largely because it avoids the 'tax on tax' characteristic of most indirect taxes.
- A wider tax base has resulted in less distortion of trade and a greater sharing, across all sectors of the business community, of the costs of collecting indirect taxes and remitting them to the Government.

VAT in Zambia is administered under the Indirect Taxes and Excise Division of Zambia Revenue Authority (ZRA). The primary Law relating to VAT is contained in the Value Added Tax Act Chapter 331 of the Laws of Zambia. The subsidiary legislation comprises General Regulations made by the Minister through Statutory Instruments and Administrative Rules made by the Commissioner General through Gazette Notices.

The purpose of this booklet is to provide general guidance and it does not replace or amend the law. Further, the guidance 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.



DINGANI BANDA
COMMISSIONER-GENERAL

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PART 1

1.0 Explanation of Value Added Tax (VAT)

Value Added Tax is a tax charged and collected on taxable supplies of goods and services and on imported goods.

1.1 The Mechanisms of VAT

The VAT system is applicable to all businesses in the production chain that is from manufacture through to retail. VAT is also levied on imports.

VAT is collected at each stage in the chain when value or an incremental figure (mark-up) is added to goods or services, hence the name “Value Added” Tax. Goods or services sold or rendered at values less than their purchase amounts will still attract VAT at the prices they are traded at, subject to certain exceptions i.e. the Open Market Value. It is thus not true that VAT will only apply to a transaction when a good or service fetches more than it cost the business in purchase amount.

The essential mechanism of VAT is as follows:

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

1.2 VAT Computation

The following example shows how VAT works through the chain from Manufacturer to Retailer.

A manufacturer makes copper trays which are sold through a wholesaler to a retail supermarket and then on to the consumer. The VAT rate is 16%:

The Manufacturer sells the copper tray to the Wholesaler for K2, 900.00 VAT inclusive, being K2, 500 for the item and K400.00 VAT. He uses his own labour both to mine the copper and make the tray so he makes no purchases. The tax position of the manufacturer is as follows:

a) Manufacturer:

| | | | |
|--|---------|------------|----------------|
| Sales (supplies made) | K2, 500 | Output VAT | K400.00 |
| Purchases (Supplies received) | Nil | Input VAT | Nil |
| Value Added | K2, 500 | | |
| VAT payable to the ZRA (output tax minus input tax) | | | K400.00 |

Assuming the Wholesaler sells the copper tray to the supermarket for K4, 640.00 VAT inclusive (K4, 000.00 for the item and K640.00 VAT). The VAT on purchases was K400.00. The net VAT paid to ZRA by the wholesaler is (output tax minus input tax) K640.00- K400.00=K240.00

b) Wholesaler:

| | | | |
|--|---------|------------|----------------|
| Sales (supplies made) | K4, 000 | Output VAT | K640.00 |
| Purchases (Supplies received) | K2, 500 | Input VAT | K400.00 |
| Value Added | K1, 500 | | K240.00 |
| VAT payable to the ZRA (output tax minus input tax) | | | K240.00 |

The retailer puts a mark-up of K1, 000 and sells to the final consumer at a VAT inclusive price of K5, 800. Since he suffered K640 VAT on his purchase, he only pays K160.00 to ZRA as illustrated below.

c) Retailer:

| | | | |
|--|---------|------------|----------------|
| Sales (supplies made) | K5, 000 | Output VAT | K800.00 |
| Purchases (Supplies received) | K4, 000 | Input VAT | K640.00 |
| Value Added | K1, 000 | | K160.00 |
| VAT payable to the ZRA (output tax minus input tax) | | | K160.00 |

So ZRA finally collects the K800 on a VAT inclusive total sales value of K5, 800 in 3 stages, i.e. K160.00 from the supermarket on a value-added amount of K1, 000; K240.00 from the wholesaler on a value-added amount of K1, 500; and K400.00 from the manufacturer on a value-added amount of K2, 500.00.

This example illustrates that although VAT is collected in stages, by a VAT registered business, it is a tax on consumer expenditure.

The final consumer has paid the full tax of K800.00 in the retail price. VAT is collected in the chain that begins with the manufacturer or importer and goes through the distribution and retail stages to the final consumer.

1.3 Supplies for VAT Purposes

VAT is a tax charged on taxable supplies of goods and services. The example above shows VAT being charged and collected on a chain of supplies on the sale of a tray. However, there are many business transactions in addition to a straight sale, which are also viewed as supplies under VAT Law, e.g.

- Gifts of goods (subject to conditions provided in the Regulations)
- Business goods taken for own use
- Business goods taken for own consumption
- Lease or Hire services
- Treatment of any goods
- Imported goods
- Imported services.

1.4 Liability to VAT: Taxable and Exempt Supplies

Not all supplies or sales are liable to VAT. The VAT law classifies supplies as either taxable or exempt:

- Taxable Supplies are those which are liable to VAT
- Exempt supplies are not subject to VAT

1.4.1 Taxable Supplier

A taxable supplier is a person who is registered or is required by the VAT Act to be registered and includes tax agent or recipient of imported services. To be a taxable supplier, a person or business must deal in taxable supplies or a combination of taxable and exempt supplies but not solely exempt supplies.

1.4.2 Taxable Supplies

A taxable supply is a supply of goods or services that are liable to VAT.

Taxable supplies are subject to VAT at one of two rates:

- Taxable supplies are either subject to VAT at the standard rate or zero rated i.e. charged at the rate of 0%.
- All supplies of goods and services that are not exempt or zero rated are standard rated. Currently the Standard rate is 16%.
- All supplies of goods and services that are listed in the Zero-Rating Order are taxed at 0%.

Thus, taxable supplies consist of the following two categories:

- Standard rated goods and services at 16%; and
- Zero-rated goods and services taxed at 0%.

1.4.3 Examples of Taxable Supplies

- The sale of new or second-hand goods.
- Business samples or business gifts for promotional or publicity purposes (of a value above K100 to a person in a particular accounting year).
- The transfer of ownership or possession of goods, or the provision of services to persons involved with a business (employees, directors, partners, etc.).
- The sale of business assets, for example by companies in liquidation and receivership.
- The hiring or loan of goods within Zambia including hiring, leasing or loan of goods out of Zambia.
- Delivery, packing and postage charges.
- Treatments applied to any goods.
- The rendering of services (including building services; professional services; service charges; management and consultancy services.
- Imported services (Reverse VAT)
- Club membership fees and subscriptions.

1.4.4 Exempt and Zero-rated supplies

(a) Exempt Supplies

These are supplies of goods, services or importation of goods not subject to VAT such that even when a VAT registered business supplies them, no VAT is chargeable. These are specified in the Exemption Order issued by the Minister responsible for Finance.

(b) Zero-rated Supplies

These are supplies of goods, services or importation of goods that attract VAT at zero per cent. These are specified in the Zero-Rating Order issued by the Minister responsible for Finance.

1.4.5 Difference between Zero-Rated and Exempt Supplies

There is no VAT on exempt supplies whereas zero-rated supplies are taxed at 0%. The difference is that when dealing in zero-rated supplies, a business can register for VAT and reclaim input tax, which is not the case with exempt supplies.

- **A business making only zero-rated supplies**

Since zero-rated supplies are taxable supplies, a VAT registered business that deals in them is still entitled to claim input tax on purchases made. This means that taxable suppliers dealing only in zero-rated goods and services will have input tax and nil output tax, as such will be in a refund position. A good example is a business dealing only in medical supplies

which are all zero-rated and has purchases which are standard rated. However, the Commissioner – General may by notice in writing exempt a supplier from the requirement to be registered if he is satisfied that all the supplies of a business would be zero-rated. The Commissioner-General may likewise rescind at any time any such exemption granted.

- **A business making only exempt supplies**

Since exempt supplies are not taxable supplies, a business dealing exclusively in such supplies **is not** entitled to register for VAT. This means that this business will have no opportunity to reclaim input tax on purchases.

- **A business making both taxable and exempt supplies**

A business supplying both taxable and exempt goods and services is described as “**partially exempt**”. Where the taxable portion exceeds or is expected to exceed the threshold required for registration, the business must apply to be registered. There are special rules that govern how a partially exempt supplier may reclaim input tax (Refer to the appendix)

1.5 Imported Goods

VAT is chargeable on all importations of taxable items whether by private persons or by businesses (and whether or not they are registered for VAT).

1.6 Exports

1.6.1 Export of Goods

Subject to certain conditions, the export of taxable goods is zero-rated for VAT. To zero-rate at exportation, the goods must be supplied (i.e. sold) direct to a business abroad by or on behalf of the supplier. To qualify for zero-rating, the following proof of exportation will be required to be produced:

- (a) copies of export documents for the goods, bearing a certificate of shipment provided by the Authority;
- (b) copies of import documents for the goods, bearing a certificate of importation into the country of destination provided by the customs authority of the country of destination or copies of transit documents for goods bearing a certificate of transit provided by the Customs authorities of the country of transit;
- (c) tax invoices for the goods exported;
- (d) documentary evidence proving that payment for the goods has been made in the exporter's bank account in Zambia; and
- (e) such other documentary evidence as the authorized officer may reasonably require.

1.6.2 Freight services for exports

To zero rate freight services for exports, the following evidence must be produced:

- (a) copies of export documents for goods, bearing a certificate of shipment proved by the Authority; and
- (b) consignment notes;

As a mandatory requirement, and shall in addition provide any two of the following;

- i. tax invoices indicating the starting point and destination of the trip undertaken;
- ii. transport waybills;
- iii. proof of payment by the customer for the services rendered; and
- iv. contracts or agreements in respect of the transportation of goods.

1.7 Place of Supply

To be within the Zambian VAT system, a supply or sale must be made or deemed to have been made in Zambia.

There are rules that govern the determination of place of supply for VAT purposes. These are set out below:

1.7.1 Place of Supply of Goods

Goods shall be regarded, for taxation purposes, as being supplies in Zambia if-

- (a) the goods are exported from Zambia;
- (b) the goods are supplied within Zambia;
- (c) the supply of the goods involve entry into Zambia; and
- (d) the supply involves installation or assembly of the goods at a place in Zambia.

1.7.2 Place of Supply of Services

You supply services in the place where you belong. You belong where you have a business or some other fixed establishment, including a branch or agency. If you have no such establishment, you belong where you usually live. In the case of a company this is where it is legally constituted. If you have establishments in more than one country, the supply takes place at the location of the establishment most directly concerned with the supply.

Where services are supplied wholly or partly in Zambia, but on or near the border between Zambia and another country and whether or not the services are paid for in Zambia, the Commissioner-General may, by notice, determine that they shall be regarded as supplied in Zambia where:

- The business supplying the services is registered in Zambia; or
- The business operates on a de facto basis in Zambia;
- The services are imported. Services are imported when they are performed, undertaken or utilized in Zambia or when the benefit of their supply is for a recipient in Zambia; or
- Other circumstances, as the Commissioner-General considers relevant, exist.

The place of supply of radio, television, telephone or other Information, Communication and Technology (ICT) services, where the signal or service originates outside Zambia, shall be treated as being supplied at the place where the recipient receives the signal or service, provided that a consideration is payable for receiving the service or signal.

1.7.3 Reverse charge on services supplied to registered suppliers in Zambia by non-resident suppliers

- Reverse VAT is charged on the supply of services, including consultancy, research, advertising, management fees, royalties, etc., rendered by non-resident suppliers where the non-resident supplier does not appoint a tax agent. The purpose is to promote equity and fairness between the non-resident suppliers and the local suppliers.
- The taxable value for imported service that are subject to reverse VAT is a full consideration or open market value for the services rendered whichever is greater. **Refer to the leaflet on VAT Reverse Charge for more details.**

1.8 Tax Point - The time when taxable supplies are made

The tax point is the time when tax is due and payable. It is the **earliest** of the following:

For goods:

- the time when they are removed from the seller or supplier's premises;
- the time when made available to the person to whom they are supplied;
- when a payment is received; or
- the time when a tax invoice is issued.

For services:

- the time when a payment is received;
- the time when a tax invoice is issued; or
- the time when they are actually rendered or performed.

1.8.1 Tax point for particular transactions

(a) Deposits

Most deposits serve primarily as advance payments and will create tax points when you receive them. However, certain deposits are not a consideration for a supply and their receipt does not create a tax point, e.g. when a deposit is taken as security to ensure the safe return of goods hired out and the deposit is refunded when the goods are returned safely.

(b) Continuous supplies of service

If you supply services on a continuous basis and receive payments regularly or from time to time the tax point is the earliest of the conditions in paragraph 1.8 above being met. Examples include supplies of water, gas or any form of power, heat, refrigeration or ventilation, etc.

(c) Services supplied in units at frequent intervals, such as metered supplies.

If you cannot determine the time when each unit was supplied, the tax point is taken as the time when you issue an invoice or receive a payment for services performed up to a specified date, or the time when the meter is read, whichever happens first.

(d) Sale or Return consignments

When business supplies goods on “sale or return” agreements, the goods have not been sold and the supplier still owns them until such a time as the customer adopts them. Adoption means the customer pays for them or otherwise indicates willingness to keep them. Until the goods are adopted, the customer has an unqualified right to return them at any time, or unless there is an agreed time limit. The tax point for these consignments is the earliest of the date of adoption, payment or invoicing.

(e) Goods taken for personal or other non - business use

When goods are taken out of the business, for personal use or for non-business use, the tax point is the time when goods are taken or set aside for that purpose.

(f) Staged payments and part payments

Staged payments or part payments, such as is the practice in the construction industry, create a tax point at the time the payment is due or is made; whichever occurs first.

(g) Property and leasehold

If you receive periodic payments of commercial rent, the tax point is that prescribed by the contract, i.e. when the service is performed, or the date

you receive a payment, or the date of issue of a tax invoice, whichever happens first.

1.9 Taxable value

The taxable value is the price that is charged for goods and services onto which VAT at the prescribed rate (which currently is 16%) is added. For goods and services, which attract Excise Duty, it is the net selling price plus Excise Duty. Below is an example illustrating the taxable value concept where item 1 does not attract Excise Duty and item 2 attracts Excise Duty at 10%.

| | Item 1 | Item 2 |
|----------------------------|---------------|---------------|
| Net Selling Price | K2,000 | K2,000 |
| Excise Duty [at 10%] | nil | K 200 |
| Taxable Value | K2,000 | K2,200 |
| VAT | K 320 | K 352 |
| Total Selling Price | K2,320 | K2,552 |

For imported goods, the taxable value is the value for duty purposes with the addition of any duties and other charges. On duty free goods on which VAT is applicable, the taxable value is the value for duty purposes.

Where a cash discount is granted

The value of the tax ascertainable is based on the undiscounted cash value.

For example:

| | Item 1 | Item 2 |
|----------------------------|----------------|----------------|
| Net Selling Price | K2, 000 | K2, 000 |
| Cash discount [at 10%] | nil | K 200 |
| Net Amount | K2, 000 | K1, 800 |
| Taxable Value | K2, 000 | K2, 000 |
| VAT | K 320 | K 320 |
| Total Selling Price | K2, 320 | K2, 320 |

Where a trade discount is granted

The value of the tax ascertainable is based on the discounted price.

For example:

| | Item 1 | Item 2 |
|----------------------------|----------------|----------------|
| Net Selling Price | K2, 000 | K2, 000 |
| Trade discount [at 10%] | nil | K 200 |
| Net Amount | K2, 000 | K1, 800 |
| Taxable Value | K2, 000 | K1, 800 |
| VAT | K 320 | K 288 |
| Total Selling Price | K2, 320 | K2, 088 |

There are some circumstances where the taxable value is calculated differently. For example:

- When goods are supplied as a gift;
- In barter or part exchange transactions;
- Where goods or services are supplied at a reduced price to employees and others persons associated with a business.

In such cases, the **open market value** must be used. The open market value is the price at which the goods or services concerned would have been supplied in the ordinary course of business, to a person independent of the supplier.

1.10 Minimum taxable values (MTV)

VAT is charged on the recommended retail price namely the MTV, for products listed in the third schedule of the VAT Act such as carbonated and non-carbonated soft drinks, Maheu and like products, beers, cigarettes, Air time, mineral water, sugar, and cement. The effect is that if these items are sold for a price less than the MTV, VAT due is based on the MTV. If they are sold for more than the MTV, VAT is due on the actual selling price.

Refer to Appendix 1.

2.0 Registration for VAT - registration rules

Statutory registration

- A **supplier** must apply to register if the value of taxable supplies in the course of business exceeds or is likely to exceed the statutory registration threshold (currently K800, 000 in any twelve consecutive months or K200, 000 in any consecutive three months).

Voluntary Registration

- A taxable supplier with annual turnover of less than the statutory registration threshold has option to register under the voluntary registration upon satisfaction of prescribed conditions.

A supplier registered under voluntary registration is required to:

- renew the registration every twelve (12) months and;
- notify the Commissioner-General in writing thirty (30) days before the expiry of the twelve (12) months period of the intention to renew the registration.

2.1 Businesses making only zero-rated supplies - waiver of registration

- Where the Commissioner-General is satisfied that all supplies of a supplier are zero-rated he or she may by notice waive the requirement of the business to register. However, the Commissioner-General reserves the right to rescind the decision any time he deems necessary.

2.2 Factors to take into account when calculating taxable turnover are:

- Value of standard rated supplies
- Value of zero-rated supplies

In estimating the future “level of taxable supplies, account should be taken of seasonal variations or one-off receipts that have either occurred or are expected to occur during the year.

2.3 Effective Date of Registration (EDR)

The date when a business becomes eligible for VAT is as follows:

- **For a new business** - If the turnover threshold is likely to exceed K800,000, from the date of commencement of trading
- **For a continuing business** which has exceeded the turnover thresholds:
 - Within one month of an application being made or from the date the application was received or,
 - Where the application is not made within one month of first

becoming liable to register, on the day following the first period during which the limits were exceeded.

2.4 Late Registration Penalties

(i) Late registration fee

Late registration for VAT attracts automatic penalties consisting of ten thousand fee units for each standard tax period the supplier remains unregistered after meeting the registration threshold.

(ii) Assessment of Tax Due on supplies made prior to registration

Where a supplier who is eligible for registration, fails to register, tax due on the supplies made shall be assessed from the time the supplier was due for registration to the date of the assessment and interest payable thereon.

(iii) Failure to comply with registration conditions

A supplier who contravenes the conditions of registration or holds oneself out as a registered supplier when not, will be liable upon conviction to a fine not exceeding ten thousand penalty units or to imprisonment for a term not exceeding twelve months.

2.5 Reclaiming of VAT prior to Registration

Tax incurred on goods or services purchased prior to a business registering for VAT is not claimable or deductible as input tax.

However, a supplier is expected to charge VAT on stock available at registration.

2.6 Intending Traders

Intending traders are suppliers who are registered for VAT before they commence trading activities. Such registration is normally for the sole purpose of claiming input tax, which relief is granted as follows:

- up to ten years for traders engaged in exploration;
- up to four years for traders engaged in electricity generation, farming and mining; and
- up to two years for all others.

ZRA may request any such suppliers to give security as a condition for repaying input tax.

2.7 The Obligations of a VAT registered supplier

A VAT registered supplier is required to:

- Display the tax registration certificate in a prominent place of the business. Similarly copies of this registration must be displayed at all other places of business that the registration applies to.

- Charge VAT on taxable supplies.
- Submit returns and pay VAT on or before the due date to ZRA as follows:
 - o A return with less than ten transactions may be lodged manually and shall be submitted within five (5) days after the end of the prescribed accounting period to which it relates.
 - o A return with ten or more transactions shall be lodged electronically within eighteen (18) days after the end of the prescribed accounting period to which it relates.
- Provide “tax invoices” containing the details required by law
- Maintain required records, and retain them for a minimum period of 6 years to enable ZRA verify the VAT liability.
- Advise ZRA of any change in business details e.g. change of contact details such as address, email or telephone number, addition of new partner, including cessation of business, etc.
- Allow officers of ZRA to enter the business premises and examine goods and all business records.
- Provide information about the business as required by ZRA.

2.8 Entities to be registered for VAT

The entities that can be registered as suppliers or taxpayers for VAT purposes include:

- Individuals (e.g. sole proprietors).
- Companies.
- Partnerships.
- Trust.
- Groups of persons (associations and clubs).
- Joint Ventures.

2.8.1 Businesses with branches

Normally only business entities are registered for VAT and not their individual outlets or branches. This means that businesses with a number of branches or outlets will normally have a single registration and make one return and payment for each tax period, keeping administration burdens to a minimum. However, where for some practical reasons it is more convenient, a branch or division of a business may be separately registered and carry on the obligations of a registered supplier if:

- It maintains an independent system of accounting; and
- It can be separately identified in terms of the nature of the activities carried on or location thereof.

If this is done, VAT has to be charged on supplies between separately registered divisions or branches.

2.8.2 Group Registration

Group registration for VAT purposes has been abolished. Therefore, each member of a Group of Companies that meets VAT registration requirements shall be required to be registered separately.

2.8.3 Special Rules Relating to Government Agencies

Government agencies engaged in making taxable supplies are required to register for VAT if they meet the VAT registration threshold. Government Agencies not engaged in providing taxable supplies and are thus not registered for VAT cannot claim input tax incurred on their purchases from the Ministry of Finance. Government agencies include:

- Any Ministry or Department of the Government.
- A statutory corporation or board.
- Local authorities,
- Any institution or body in which the government has direct or indirect control; or which is wholly or partially owned by the government.

2.9 Registration procedure

All businesses that qualify for registration are required to complete a manual registration form or undertake an e-registration. On registration, businesses will be allocated a VAT account and a tax registration certificate will be issued.

Note: Registration is done free of charge.

2.9.1 Conditions for cancellation of VAT registration

Cancellation of VAT registration can occur under the following circumstances: -

- When the taxable supplier's turnover falls below the VAT registration threshold in the course of an accounting year
- When there is a change in the legal status of an entity (e.g. a partnership is dissolved).
- If the business ceases trading permanently.
- If the business is sold.
- When an intending trader ceases to pursue the intended business.

2.9.2 Payment of VAT on Assets on Hand at De-registration

VAT registered businesses are required to pay VAT on the value of any stocks and assets on hand at the date of de-registration. This is because the registered supplier is, in effect, making a taxable supply to himself as a newly unregistered business. However, no VAT will be paid on motor cars (saloon cars, station wagons and twin cabs) in respect of which input tax deduction was not allowed.

2.9.3 Application for De-registration

Requests for de-registration should be made to the Commissioner-General, either in writing or online stating the TPIN, full details of the circumstances giving rise to the request and the contact details.

De-registrations initiated by the Commissioner-General shall require submission of a Final Return on receipt of notice of de-registration. For de-registrations initiated by the taxable supplier, the applicant will be required to submit a Final VAT return after approval.

2.10 Changes not Requiring Cancellation of Registration

- A change in the trading name of the business or the name and/or address of any partner in the business
- A change in the address of the principle place at which the business is carried on.

However, the transfer of a business as a going concern will not always require cancellation of registration:

For such changes, a supplier should notify the nearest ZRA office for amendment of details or update such details online.

PART 3

3.0 Claiming back the Tax paid on business purchases and expenses - Input Tax

VAT incurred on supplies received such as purchases and expenses is called Input tax.

3.1 Restrictions on the Input Tax that can be claimed

To ensure that only input tax which relates to taxable business activities is claimed and to protect the revenue from inappropriate claims, there are some restrictions on what can be reclaimed: -

3.1.1 Business Use/Private Use

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

3.1.2 Three Months' Time Limit for claiming Input Tax

Input tax cannot be reclaimed after a specified period (currently three months) from the date of issue of the tax invoice or, for imported goods three months from the date of importation. Note that input tax cannot be claimed on a return for a period before the tax invoice date (premature input tax claim).

Supporting documents for claiming of input tax include Tax invoices, Credit Notes, Bank Statements and receipted Import Bills of entry.

3.1.3 Evidence for Claiming Input Tax

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

3.1.4 Exceptions on charging of VAT on Imported Goods

When goods are imported into Zambia (which includes removing from an approved bonded warehouse), VAT, together with any import duties, is payable at importation to ZRA. VAT is chargeable on all imports except exempt goods. There are also some exceptions for goods imported under the Customs and Excise (General) Regulations 2000 as amended. The following are the goods which are not subject to VAT:

- Goods destroyed or lost by accident while under Customs Division control.
- Goods found to be of defective or faulty manufacture after release from Customs Division control.
- Goods temporarily imported.
- Petty consignments
- Goods imported temporarily by visitors and tourists
- Motor vehicles imported by visitors and tourists
- Commercial traveller's samples
- New residents' effects
- Traveller's effects
- Aircraft stores and equipment
- Warehoused goods not worth the duty
- Goods re-imported into Zambia
- Goods and personal effects of a deceased person imported by a duly appointed administrator
- Goods used in occupational therapy or training
- Imported airline and airline operator's documents

Change of ownership of goods in bond does not attract VAT, but import VAT is payable to ZRA when goods are removed from bond.

3.1.5 Input Tax must relate to taxable supplies.

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

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

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

Special methods are available to assist partial exempt businesses to calculate the amount of input tax that may be claimed and all partially exempt businesses must adopt one of the methods – refer to leaflet on Partially Exempt Suppliers or to Appendix 2.

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

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

3.2.1 Telephone and Internet Services:

Input tax credit is not allowed on telephone bills and internet services except on: -

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

3.2.2 Motor Vehicles

Input tax credit is not allowed on motor vehicles, however car dealers who buy cars:

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

may claim input tax in the normal way.

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

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

3.2.3 Business Entertainment

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

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

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

3.2.5 Input tax not allowed on construction of dwelling houses for staff

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

3.2.6 Input Tax incurred on electricity expenses

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

3.2.7 Input tax incurred on goods lost in the course of business

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

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

3.2.8 Commission Charged by Tax agent

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

3.2.9 Late registration

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

PART 4

4.0 Accounting for VAT on supplies made: Output Tax

All taxable suppliers must account for VAT on the supplies they make. Depending on the nature of the business there are some options as to how this is done. Types of suppliers can be divided into two broad categories: - **Retailers** who make sales directly to the consumer and **non-retailers** who normally issue invoices, such as manufacturers and wholesalers.

4.1 Issuance of Tax Invoices for supplies made

A taxable supplier shall issue a tax invoice for the supply of goods and services using an electronic fiscal device for each sale or transaction. However, the Commissioner-General may approve the issuance of a tax invoice using an approved computer application or pre-printed tax invoice by a taxable supplier.

NOTE:

A taxable supplier who fails to issue a tax invoice in the form and manner prescribed by the Commissioner-General from an approved computer package, a pre-printed tax invoice book or Electronic Fiscal Devices (EFDs), commits an offence and is liable, on conviction, in the case of a—

- (a) first offence, to a penalty not exceeding one hundred thousand penalty units;
- (b) second offence, to a penalty not exceeding two hundred thousand penalty units; and
- (c) third or subsequent offence, to a penalty not exceeding three hundred thousand penalty units, or to imprisonment for a term not exceeding three years, or to both.

Note: One penalty unit is equal to K0.30

4.2 Concession

Registered suppliers, who have not yet acquired an EFD due to non-availability of the device, are allowed to continue to use the approved computer application or pre-printed tax invoice until a time to be determined by the Commissioner-General.

4.3 Retailers making Mixed Supplies

If the business is making a mixture of retail and non-retail supplies e.g. wholesale and retail supplies, it will still be required to use the Fiscal cash register for both categories of supplies.

4.4 Retail Price to include tax

The law requires that at the retail level all prices be shown as inclusive of

VAT. Businesses however, may display notices in strategic places of the business premises stating that VAT is included in all prices displayed as an alternative to stating on each price tag that VAT is included in the price.

PART 5

5.0 Non-Retailers - Accounting for VAT on supplies made

5.1 Non-Retailers -The Invoice Basis

Businesses which use the invoice basis must account for output tax on all taxable supplies (sales), both cash and credit, whether or not payment has been received for the supplies made. A supply of goods and services is deemed to take place once the tax point occurs. Similarly, input tax can be claimed on cash and credit purchases at the time the tax invoice is obtained. However, if a payment or part-payment is received before an invoice is issued a tax point has occurred and the tax is due on that payment.

For transactions for which payment is not made wholly in cash, e.g. barter, part exchange, business gifts, etc. a tax point is created at the time of transaction and the tax payable at the open market value.

5.2 Non-Retailers - Payment or Cash Accounting Basis

All VAT registered businesses are required by law to account for tax based on the invoices issued except where the law has given relief for cash accounting. The businesses, which are permitted to use the payment or cash accounting basis are required to account for VAT to the extent that payment has been made or received. In other words, output tax is accounted for on payments received and input tax is recovered only on those invoices where payment has been made for taxable supplies received.

Cash accounting concession is restricted to members of the Association of Building and Civil Engineering Contractors (ABCEC) that are required to apply to ZRA for approval to use the scheme. Intending traders are automatically required to adopt cash accounting and these include business in exploration, electricity generation, farming, and other businesses granted this status.

PART 6

6.0 Tax Invoices

VAT is “invoice driven”. In other words, the calculation of VAT is based upon the issuance and retention of tax invoices. All VAT registered suppliers should issue tax invoices for every taxable supply, whether or not they have been granted the Cash Accounting concession. Complete copies of invoices must be retained for a minimum period of 6 years and must be produced to an authorized ZRA officer on request.

6.1 Time for Issuing Invoices

Ideally, a tax invoice must be issued at the point of transaction.

6.2 Issuance of Tax Invoices

Not more than one tax invoice may be issued for the same taxable supply. A customer is entitled to ask for a duplicate invoice, which must be marked prominently as a **duplicate**.

6.3 Details to be shown on tax invoices

(a) General

The following details must appear on the tax invoice:

- The words “tax invoice” in a prominent place.
- The name, address and Taxpayer Identification Number (TPIN) of the supplier.
- The TPIN of the customer in the case of a business to business or a business to Government transaction.
- The customer’s name.
- The serial number of the invoice and date of issue.
- The quantity or volume of the goods or services supplied.
- A description of the goods or services supplied.
- The selling price, excluding VAT and any discount.
- The total amount of the VAT charged.
- The selling price including VAT.
- The total charge on the invoice inclusive of VAT, any discount and the rate of VAT.

(b) Electronic Fiscal Device invoice

On the Fiscal Tax Invoice, the following must reflect:

- i. TPIN, Registered Name, Tax Account Name and address of must reflect on the printout.
- ii. Serial fiscal tax invoice numbers.
- iii. Fiscal invoice code.
- iv. Description of goods or services supplied.

- v. Quantity supplied.
- vi. Tax categories of the goods or services supplied.
- vii. Sales amount of the transaction.
- viii. Tax amount of the transaction
- ix. Currency notation and exchange rates for all foreign currency transactions.
- x. Time and date of the transaction.
- xi. Terminal ID of the POS.
- xii. Date and time of printout.

“Copy Tax Invoice” for all invoice reprints. The rest of the features remain the same as in **6.4**

6.4 Example

(Tax Shown Separately):

| TAX INVOICE | | | |
|---|-----------------|------------------|---------------------------------|
| QUALITY TYRES LIMITED Cairo Road P.O Box 30000 Lusaka | | TPIN: 1000000001 | Tax Invoice No. 9238 |
| To: Speciality Cars Ltd <i>Freedom Way</i> PO Box 20000 Lusaka | | TPIN: 1000000002 | Date: 10 th May 2021 |
| Quantity | Description | Unit Cost(K) | Total(K) |
| 2 | 165/70x13 Tyres | 25,000 | 50,000 |
| 4 | 175/70x14 Tyres | 30,000 | 120,000 |
| | | | 170,000 |
| | | VAT at 16% | 27,200 |
| | | Total | 197,200 |

Note: Businesses should record separately on the tax invoice any supplies that are zero rated or exempt.

In situations where it is impractical to include certain information and sufficient detail on the invoice, other records are maintained in support of the invoice.

Tax invoices received, and copies of those issued, must be retained for a minimum of 6 years and produced to the ZRA on demand.

6.5 Manual Tax Invoices

It is mandatory that manually issued tax invoices be taken from a serially numbered pre-printed invoice book.

6.6 Computer-Generated Tax Invoices

Suppliers with computerised accounting packages (in-house or off-the-shelf) that have not already been approved by the Commissioner-General shall apply for approval. Eligible accounting packages must be capable of integrating with the Zambia Revenue Authority's Tax Invoice Management System and should have the capacity to:

- (i) Print tax invoices, credit notes and debit notes bearing all the mandatory features of a Tax Invoice;
- (ii) Generate automatic and consecutive document numbering with inbuilt safeguard against reallocation or resetting of the numbers in any circumstance; transactions, once posted and a tax invoice printed, become read-only to all user or, where editing is possible a read-only audit trail showing original details is in-built;
- (iii) Produce periodic transaction reports showing invoice number, invoice date, customer's name, description of goods or services supplied, value before VAT and VAT amount.

6.7 Bank Statements

Banks registered as Commercial Banks under the Banking and Financial Services Act (Cap 387 of the Laws of Zambia) shall issue bank statements as their tax invoices to their clients which will show the following features:

- (i) Name of the bank in a prominent place of the bank statement;
- (ii) Taxpayer Identification number (TPIN) of the bank;
- (iii) Month of transaction;
- (iv) Date of the transaction;
- (v) Description of the service rendered, tax liability (standard rated, exempt, or zero-rated), the amount charged before tax and the VAT charged.
- (vi) Total supplies for the month split into standard rated, exempt and zero-rated supplies;
- (vii) Total VAT charged in the month
- (viii) Page number(s) of the bank statement e.g. 1 of 3, 2 of 3 and 3 of 3.

6.8 Issuance of Credit Notes

The issue of a credit note is required where:

- The supply has been cancelled.
- The supply has been varied or altered.
- The purchase price has been varied or altered
- The goods have been returned to the supplier.

Note, when purchasers receive discounts for prompt payment (details of which must be stated on the face of the tax invoice) credit notes need not be issued to cover the cash discount given.

The Tax Credit Note shall contain the following features:

- (i) The words 'credit note' displayed in a prominent place;
- (ii) The registered supplier's name and address;
- (iii) Taxpayer identification number;
- (iv) The date of issue of the credit note;
- (v) The credit note serial number;
- (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 exclusive amount charged for each description of goods or services supplied and the rate or rates of tax;
- (viii) Number of the invoice being adjusted;
- (ix) Statement of the reason for the credit; and
- (x) The amount of credit

Credit notes not meeting these requirements shall not be accepted as evidence for tax claims or other tax adjustment purposes.

The VAT on Credit notes issued should be deducted from the total output tax in the period in which the credit is given. Complete copies of credit notes must be retained for a minimum period of 6 years and must be produced to an authorised ZRA officer on request.

A credit note shall not be allowed for deduction of input tax after the expiry of three months from the transaction date.

6.9 Receipt of Credit Notes

If a credit note has been received, the customer must ensure that input tax is not claimed, or if it has already been claimed that it is corrected by deducting the VAT amount from the input tax claimed in the same period in which the credit note is received. There are severe penalties for claiming input tax to which one is not entitled.

PART 7

7.0 Records and Accounting Systems

For VAT purposes, as far as possible the ZRA relies on the records and accounts ordinarily kept by businesses. However, to make sure that businesses keep appropriate records, the law prescribes some minimum requirements.

7.1 Records that Must Be Kept

ZRA officers will visit to examine records to satisfy themselves that the business is accounting for the tax correctly. It is important that the business retains sufficient records to enable ZRA do this effectively. If the business is accounting for VAT for the first time, some modifications to the normal accounting records will probably be necessary. Under the law, a VAT accounting system must: -

- Record the nature, quantity and value of both supplies made and supplies received e.g. Purchase and Sales day books, plus daily sales records, recorded from till rolls for a retailer
- Be able to distinguish between taxable and exempt supplies.
- Record payments for both supplies made and supplies received e.g. a Cash Book.
- Include a summary of the output tax, input tax and the net tax payable or reclaimed i.e. a **VAT Account**.
- Contain adequate proof that goods have been exported e.g. copies of export documents, copies of documents showing importation into the receiving country and proof of payment by the customer.
- Contain adequate proof that goods have been imported e.g. in addition to a commercial invoice, a Customs CE 20 form.
- Contain adequate evidence for zero rating of supplies made.

Note: Purchase and Sales Day Books should include columns for the following:

- Invoice number.
- Invoice date.
- Supplier's name (purchase day book) or customer's name (sales day book).
- Taxable value.
- The amount of VAT
- The gross invoice values.

Partly exempt businesses will need to add extra columns to separate

exempt sales and purchases relating to them.

7.2 Records to be maintained by retail businesses

Retail businesses must keep copies of all daily retail transactions, such as till rolls, books etc. and copies of any invoice or receipt books used.

Retailers are warned that failure to use a fiscal cash register to record all sales made and the under recording of takings will be treated as a serious offence and heavy penalties imposed.

7.3 The VAT Account

This is a summary of transactions for an accounting period showing the source of the figures on the VAT return. It is invaluable in demonstrating how a business arrives at the figures.

Example VAT Account: Period Ending 31st December, 2012

Output VAT on sales and other outputs (Box 1 of the VAT Return):

| | |
|--|----------------|
| Cairo Road shop VAT on cash sales | K1, 000 |
| Plus Northmead Shop VAT on cash sales | K2, 500 |
| Plus VAT on Invoiced Sales | K1, 500 |
| Sub Total VAT on Sales | K5, 000 |
| Less VAT on credits given for returned goods | K 300 |
| Total Box 1 | K4, 700 |

Input VAT on domestic purchases and other inputs (Box 2 of the VAT Return):

| | |
|--|----------------|
| VAT on domestic purchases and expenses | K2, 500 |
| Less VAT on credits received for returns | K 200 |
| Sub Total Input VAT | K2, 300 |
| Less VAT accidental over claim in June | K 100 |
| Total Box 2 | K2, 200 |

Input VAT on Imports (Box 3 of the VAT Return):

| | |
|--------------------|--------------|
| Imports | K 700 |
| Total Box 3 | K 700 |

Total Input VAT total of Box 2 and Box 3 (Box 4 of the VAT return):

| | |
|--------------------|----------------|
| Box 2 | K2, 200 |
| Plus Box 3 | K 700 |
| Total Box 4 | K 2,900 |

Total VAT payment or Repayable Box 1 Minus Box 4 (Box 5 of the VAT return):

| | |
|--------------------|----------------|
| Total Box1 | K4, 700 |
| Minus Total Box 4 | K2, 900 |
| Total Box 5 | K1, 800 |

7.4 Retention of Records

All records and accounts, including tax invoices and credit notes, must be preserved in English for a minimum of 6 years and made available for inspection to authorised officers of the ZRA on demand.

PART 8

8.0 Making VAT Payments and Returns

A VAT return for each tax period, and any VAT payable, must be submitted to ZRA **not later than the 5th** day of the month, following the month to which the return relates **for returns submitted manually, and not later than the 18th** day of the month, following the month to which the return relates **for returns submitted online**.

Failure to make a return and/or to pay the tax due by the due date will result in penalties and interest charges being applied as follows:

- For late submission of a return, the penalty is K300, or 1/2 % (0.5%) of the tax payable (whichever is greater) for each day that the return is not submitted.
- For late payment of VAT, the penalty is 1/2% or (0.5%) of the tax due for each day the VAT is unpaid.
- Interest is chargeable for each month or part of a month that a payment is overdue and is charged at the Bank of Zambia discount rate plus 2%.

Where a repayment return or a 'nil' return is made late, late submission penalties are still chargeable.

8.1 Enforcement of un-paid tax

Tax due including interest and penalties is a debt to the Republic and is recoverable by the Commercial-General. To recover the debt, the Commissioner-General may use any or a combination of the following enforcement tools:

- **Offset of tax:** The tax debt may be recovered by offsetting the liability against any tax refund due to the taxpayer.
- **Time to pay:** The Commissioner-General may allow a taxpayer to pay the tax debt over a specified period of time. Note that where a time to pay agreement has been entered into, any outstanding balances will attract interest.
- **Garnishee:** A tax debt may be recovered from any person whom the Commissioner-general knows that he owes the defaulting taxpayer some money.

- **Warrant of distress:** The Commissioner-General may distrain movable goods and chattels belonging to the taxpayer in order to recover a debt.
- **Charge on land:** The Commissioner-General may register a caveat on land belonging to the taxpayer who owes a tax debt until such time that the debt has been paid in full.
- **Court proceedings:** The Commissioner-General may obtain an order of the court to recover a tax debt due.

8.2 Errors and omissions

Interest is chargeable at the Bank of Zambia discount rate plus 2% on amounts under- declared on VAT returns e.g. under-declarations discovered and assessed following a VAT inspection visit.

Also, a taxable supplier is required by law to include on his next VAT return all under-declarations; and over-declarations discovered on previous returns. In applying any interest or penalty in relation to such corrections the Commissioner-General shall take into account circumstances of the correction.

8.3 False returns, documents, information, statements etc. and fraudulent evasion

8.3.1 Penalties for submission of false returns and documents

Any person who, in relation to a particular tax period makes a return or other declaration, furnishes any document or information or makes any statement, whether in writing or otherwise, that is false in any material particular commits an offence and is liable, on conviction in respect of that tax period, in the case of-

- (a) first offence, to a fine not exceeding sixty thousand penalty units;
- (b) second offence, to a fine not exceeding one hundred and twenty thousand penalty units;
- (c) third offence, to a fine not exceeding two hundred and forty thousand penalty units; and
- (d) for any subsequent offence, to a fine not exceeding three hundred thousand penalty units or to imprisonment for a term not exceeding three years, or to both. The change increases the penalty in respect of furnishing false returns, documents, statements or information and introduces a graduated penalty system for subsequent violations.

The following are the Kwacha equivalent penalty amounts shown in the table below:

Penalties for False Returns and Statements

| Offense | Maximum Penalty Units | K/Penalty Unit | Kwacha Equivalent |
|---------|-----------------------|----------------|-------------------|
| First | 60,000 0 | .30 | 18,000 |
| Second | 120,000 0 | .30 | 36,000 |
| Third | 240,000 0 | .30 | 72,000 |
| Others | 300,000 | 0.30 | 90,000 |

8.3.2 Penalties for Tax Evasion

A person who deals in or accepts the supply or importation of any goods, or the supply of any services, having reason to believe that the proper tax has not been or will not be paid or that any deduction or credit has been or will be falsely claimed in relation thereto shall be guilty of an offence and shall be liable, on conviction, to a fine not exceeding three hundred thousand penalty units or six times the amount of the tax whichever is greater, or to imprisonment for a term not exceeding three years, or to both.

8.4 Non-Standard Tax periods

8.4.1 Accounting at a time of supply

Except as otherwise allowed or directed by the Commissioner-General, a taxable supplier whose annual turnover does not exceed the statutory threshold (currently at K800, 000); or who is involved in farming of seasonal crops may apply for quarterly tax accounting periods.

The quarterly tax accounting periods will be January to March, April to June; July to September; and October to December.

8.4.2 Accounting for VAT by Oil Marketing Companies

Except as otherwise allowed or directed by the Commissioner-General, a taxable supplier, being an Oil marketing Company (OMC) shall withhold output tax on hydrocarbon oils and oil products supplied by TAZAMA Petroleum Limited and remit the output tax to the Commissioner-General within ten (10) days following the end of the accounting period in which the output tax is withheld.

A schedule of the output tax withheld shall be lodged within five days following the end of the accounting period, or within such period as

approved by the Commissioner-General in writing to the taxable supplier. The schedule of uplifts constitutes a return for purposes of output tax on hydrocarbon oils and oil products supplied by TAZAMA Petroleum limited whose accounting periods shall be as follows:

- First to the tenth day of each calendar month for the first return of the month;
- Eleventh to the twentieth day of each calendar month for the second return of the month; and
- The remaining days of the calendar month for the third return of the month

8.5 Accounting for VAT withheld by appointed agents

The Commissioner-General may appoint a taxpayer as an agent to withhold tax on Payments made to taxable suppliers of goods and services received in a particular Month and lodge a return relating to Value Added Tax withheld in the form and manner prescribed by the Commissioner-General within sixteen (16) days following the end of the month in which the output tax is withheld. The appointment by the Commissioner-General shall be by written notice and the agent will account for the tax withheld and pay the tax in a manner specified by the Commissioner-General. An agent who discovers that errors were made on previous schedules may adjust the subsequent schedule and provide a statement in writing to the Commissioner-General explaining the circumstances under which the errors were made. The Commissioner-General shall consider the reasons for errors made in determining the amount of any interest or penalty to be charged.

8.6 Repayment of VAT

When the input tax of a business exceeds the output tax in any given accounting period, the difference is refunded to the supplier. Legally, refunds should be made within 30 days after lodgement of the return. Taxpayers are advised to submit such returns immediately after the accounting period and not wait for the due date.

In order to detect incorrect claims and to discourage fraud before making repayments, ZRA verifies selected refund claims. Every effort is made to ensure that such verifications are done as quickly as possible but some delay may be there before some repayments can be made.

It should be noted that the Authority may sometimes require a taxpayer to pay some form of security before a refund can be paid.

8.7 Use of electronic payment machines

A taxable supplier shall provide an electronic payment machine at a point of sale for use as a mode of payment for the customer.

It is an offence for a taxable supplier:

- (i) Not to have an electronic payment machine at the point of sale; and
- (ii) To deny usage of the electronic payment machine as a payment option upon request by a customer.

Where there is network failure, it is expected that a customer shall be availed a printout from the payment machine as proof of failure to connect.

8.7.1 Penalties for failure to avail an electronic payment machine

Failure to have an electronic payment machine or to avail it to a client on request is an offence and, on conviction, attracts a maximum fine of ninety thousand (90,000) penalty units which is equivalent to K27,000.00.

8.7.2 Exemptions from use of electronic payment machines

The following shall be exempted from the requirement to have a payment machine:

- (i) Suppliers that EXCLUSIVELY receive payments through electronic/bank transfers;
- (ii) Suppliers that EXCLUSIVELY receive payments through cheques; and
- (iii) Suppliers that EXCLUSIVELY receive payments through a combination of electronic/bank transfers and cheques; and
- (iv) Farmers that make seasonal sales.

PART 9

9.0 Supplies made by or through agents

An agent is someone who acts for, or represents someone else (a principal) in arranging supplies of goods or services. Supplies arranged by an agent are made by or to the principal he represents. The principal cannot avoid the liability to account for VAT on supplies made or to pay VAT on purchases by using an agent.

People who carry on a business on their own account sometimes use the words 'agent' and 'agency' to describe their trading style. For example, distributors, sole concessionaires and motor agents usually trade as principals on their own account, and employment agencies and travel agents are not usually agents in all their activities. On the other hand,

some people who normally trade as principals, such as solicitors and architects, may occasionally arrange supplies as agents for their clients. **Whatever the trading style, the procedures in this section can only be used where an agent arranges supplies, which are made by someone else.**

To be an agent, one must have agreed with the principal to act on behalf of that principal in relation to a particular transaction. This may be a written or oral agreement or merely inferred from the way the parties conduct their business affairs. Whichever form this relationship takes:

- It must always be clearly established between the two parties, and the agent must be able to show to ZRA that the transactions are being arranged for the principal, rather than on the agent's account.
- The agent will not be the owner of any goods that are being bought or sold.
- The agent will not alter the nature or value of any of the supplies made between the principal and third parties.

9.1 Accounting for VAT on agency services

An agent will usually be involved in at least two separate supplies at any one time:

- Supplies arranged by an agent between the principal and a third party.
- The supply of the agent's services to the principal for which the agent charges a fee or commission.

It is important to distinguish between supplies made by the agent on behalf of the principal and the third party and the supplies for the agent to the principal.

As the agent is making or receiving the supplies arranged as an agent for the principal, it is the responsibility of your principal (or the third party) to account for output tax on the supplies.

The normal VAT rules apply and the agent must account for VAT on the services for which a fee or commission is charged to the principal.

9.2 Agents recording transactions in their own name

Agents often issue invoices in their own name (or receive invoices made out to them) for supplies they arrange on behalf of their principals. In these circumstances they may, for VAT purposes, be treated as though they were a supply by the seller to the agent and by the agent to the buyer provided:

- Both the seller and agent are registered for VAT; and
- The supplies are taxable

9.3 Invoicing for supplies made through a selling agent

The following example illustrates the accounting procedure used when tax is due on supplies made through a selling agent.

A registered person sells standard-rated goods for a taxable value of K1,000 to another registered person. The seller uses an agent who acts in his own name. The agent takes a commission of 10%.

The seller must issue a tax invoice to the agent, showing:

| | |
|--------------|---------------|
| Goods | K1, 000 |
| VAT | 160 |
| Total | K1,160 |

The seller accounts for K160 output tax. The agent may claim K160 as input tax.

The agent must issue a tax invoice to the buyer showing:

| | |
|--------------|----------------|
| Goods | K1, 000 |
| VAT | 160 |
| Total | K1, 160 |

The agent accounts to ZRA for K160 output tax. The buyer may reclaim K160 as input tax.

The agent must also issue a tax invoice when he makes his charge to the seller, his principal, for his own services showing:

| | |
|----------------|-------------|
| 10% Commission | K100 |
| VAT at 16% | 16 |
| Total | K116 |

The agent accounts to ZRA for K16 output tax. The seller can claim input tax of K16.

In this example, the amount of money that passes between the agent and the principal (the sale) may only be K1, 044, since the agent might deduct his commission from the amount collected from the buyer, paying the balance to the principal. But the full VAT invoicing procedure must still be followed.

9.4 Invoicing for supplies obtained through a buying agent

The following example illustrates the accounting procedure used for such transactions;

A registered business uses an agent to buy goods with a taxable value of K1,000 on their behalf from another registered business. The agent is registered for VAT and charges K50 for his services.

The seller issues a tax invoice to the agent, showing:

| | |
|--------------|----------------|
| Goods | K1, 000 |
| VAT | 160 |
| Total | K1, 160 |

The seller accounts to ZRA for K160 output tax. The agent may claim K160 input tax.

The agent must also issue a tax invoice to his principal with VAT for the supply of his service.

| | |
|--------------|-----------|
| Commission | K50 |
| VAT | 8 |
| Total | 58 |

Secondly, the agent issues another tax invoice with VAT to the buyer for the supply of goods.

| | |
|--------------|----------------|
| Goods | K1, 000 |
| VAT | 160 |
| Total | K1, 160 |

9.5 Auctioneers

The rules in this section apply when an auctioneer offers goods for sale as the agent of the seller. If, an auctioneer sells own goods as a principal, the normal VAT rules will apply.

Some auctioneers also charge a “buyer’s premium” as an additional charge to a successful bid, which for VAT purposes is consideration for a separate supply of services by the auctioneer to the buyer and it is always standard rated.

An auctioneer may be asked to arrange sales of goods in satisfaction of a debt e.g. under a court order. If the debtor is a registered person and the goods are part of his business assets, this is a taxable supply and the proceeds of the sale are treated as tax inclusive and the seller must account for the tax. The seller must issue a normal tax invoice.

PART 10 – INSURANCE PREMIUM LEVY

10.0 The Insurance Premium Levy (IPL) is a levy imposed on all insurance premiums for all classes of insurance business excluding re-insurance.

The arrangement, provision, or transfer of insurance services is exempt from VAT. The exemption from VAT extends to all types of commissions charged by Insurance Brokers in the course of arranging insurance services.

In addition to being exempt from VAT, commission earned by Insurance Brokers from the arrangement of insurance services (brokerage services) will not be subject to an insurance premium levy.

However, insurance premiums in respect of insurance policies for all classes of insurance business carried on by insurers, insurance agents or brokers except reinsurance are subject to an insurance premium levy at the rate of 5%.

10.1 Submissions of Returns by Insurance businesses

All registered suppliers are required under the VAT Act - Section 16(3) to submit returns on a monthly basis unless the Commissioner-General by notice in writing to a particular supplier determines another accounting period.

The due date for the submission of the return and payment of the Insurance Premium Levy is the 18th day of the month following the period/month to which the return relates. This is in accordance with section 7 of the Insurance Premium Levy Act which provides for the application of the Value Added Tax Act provisions in respect of filing of returns for the levy and Section 5 that provides for the due date for the payment.

The obligation to remit the levy lies with the insurer, insurance agent or broker.

11.0 Bad Debt Relief

The general rule is that all VAT registered suppliers (except those authorised to use Cash Accounting) should remit to ZRA VAT due on VAT return. However, VAT paid to ZRA but not received from a customer may, subject to the rules below, be claimed back.

11.1 Rules for Claiming Bad Debt Relief

VAT paid to ZRA but not received from the customer can be claimed back if:

- The claim is made on or after 27th January 1996.
- The debt has been outstanding for 18 months or more.
- The debtor has been declared insolvent by a court of law i.e.
 - If the defaulting customer is a person, sole trader or partnership, who has been declared bankrupt by the courts or,
 - If the debtor is a limited company, the court has ordered it's winding up and an appointed liquidator or receiver has issued a certificate to the effect that in his opinion the company would not meet the debts of unsecured non-preferential debts.

11.2 How to Claim Bad Debt Relief

A supplier who wishes to claim relief for bad debts must:

Step1

Make a claim to the administrator, receiver or liquidator against his debtor for the VAT inclusive amount that he is owed by the insolvent debtor.

Step2

Obtain a written statement from the administrator, receiver or liquidator to the effect that the debtor is insolvent and that he cannot pay the debt.

Step 3

Claim a credit for the amount of VAT remitted in respect of the bad debt by adding the Bad Debt Relief to the input tax incurred on domestic purchase on the VAT Return.

11.3 Records to Be Kept for Bad Debt Relief

For ZRA to be satisfied that claims to Bad Debt relief are correct, VAT registered suppliers claiming Bad Debt Relief should retain the following documentary evidence:

- A copy of the tax invoice issued to the debtor in connection with the supply that later became a bad debt.
- Evidence that the VAT being claimed as Bad Debt Relief was remitted to ZRA
- Copies of correspondence referred to in steps 1 and 2 above.

12.0 Appeals and Requests for Review

A taxpayer who disagrees with a decision or determination made by ZRA in relation to VAT may request for a review through the review committee. And if still aggrieved by the review committee's decision, the taxable supplier may appeal to the Commissioner - General of ZRA before lodging a dispute with the Tax Appeals Tribunal.

12.1 ZRA Internal Review

In order to avoid unnecessary costs being incurred by both parties, the Indirect Taxes & Excise Division of ZRA has put in place an internal review mechanism. Taxable suppliers are encouraged to request the Commissioner Indirect Taxes & Excise to review any decisions, or tax amounts assessed by officers, before lodging an appeal with the Commissioner - General and the Tax Appeals Tribunal. The tax and interest charged on a taxpayer is recoverable after or within the review period immediately after the Commissioner-General's determination of an objection whichever is earlier. The review period is thirty days from the date of notice of the assessment.

12.2 The Tax Appeals Tribunal

A taxable supplier who is not satisfied with the decision made by ZRA may appeal to the Tax Appeals Tribunal within thirty (30) days of notice of determination by ZRA.

12.3 Appealable Matters

For VAT, a taxable supplier may make an appeal on decisions or determinations made by ZRA in relation to:

- Registration or cancellation of registration or refusal to register a supplier.
- The tax assessed to be payable on any supply of goods or services or the importation of any goods.
- The amount of any input tax that may be credited to any taxable supplier.
- The application of any rule providing for the apportionment or disallowance of input tax; or
- Any notice requiring early payment of tax or security.

12.4 Appeal Conditions

An appeal shall be lodged with the Tribunal within thirty days from the date of the decision or determination of the Commissioner – General and must comply with the Revenue Appeals Tribunal Regulations, (Statutory Instrument No. 143 of 1998).

APPENDIX 1

GOODS ON MINIMUM TAXABLE VALUE

SPECIFIED SUPPLIES

- (1) Bulk and bagged cement (local and imported)
- (2) Carbonated drinks (local and imported)
- (3) Non-carbonated drinks (local and imported)
- (4) Clear beer (local and imported)
- (5) Opaque beer (bulk and packed)
- (6) Cigarettes (local and imported)
- (7) Air time
- (8) Mineral water (local and imported)
- (9) Sugar

APPENDIX 2

PARTIAL EXEMPTION METHODS OF APPORTIONMENT OF INPUT TAX

First Method

- Step 1** - Calculate the value of the taxable supplies made in the prescribed accounting period
- Step 2** - Calculate the value of all supplies made in the prescribed accounting period
- Step 3** - Calculate the amount of tax payable on supplies (purchases) made to the supplier in that accounting period.
- Step 4** - Divide the amount obtained in Step 1 by the amount obtained in Step 2, i.e.

Taxable supplies in period

All supplies in period

Input tax that can be claimed in the accounting period is the product obtained by multiplying the amount obtained in step 3 by the amount obtained in step 4, i.e.

$$\frac{\text{Taxable supplies in period}}{\text{All supplies in period}} \times \text{VAT payable on purchases in period}$$

Second Method

- Step1** - Divide input tax for the prescribed accounting period into categories: -
- Category A - Input tax directly attributed to taxable supplies
 - Category B - Input tax directly attributable to exempt supplies
 - Category C - Input tax that is paid for the purposes of the business but is not directly attributable to either taxable or exempt supplies (e.g. VAT on electricity bills, rental bill, etc.)
- Step2** - Calculate the value of taxable supplies made in the prescribed accounting period.
- Step 3** - Calculate the value of all supplies made in that period.
- Step 4** - Divide the amount obtained in Step 2 by the amount obtained in Step 3, i.e.

Taxable supplies in period

All supplies in period

Input tax paid for the purposes of the business but is not directly attributable either to taxable or exempt supplies (input tax in Category C), equal to the proportion mentioned in Step 4 is deemed to be attributable to taxable

supplies and may be claimed as a deduction with the amount of tax in Category A, i.e.

Taxable supplies in period × **Input tax not directly attributable to exempt supplies**
All supplies in period

+ Input tax directly attributable to taxable supplies

(Step 4 X Category C) + Category A

Third Method

- Step 1** - Calculate the value of taxable supplies made in all prescribed accounting periods in the accounting year
- Step 2** - Calculate the value of all supplies made in that period.
- Step 3** - Calculate the amount of tax payable on supplies made to the supplier in that period.
- Step 4** - Divide the amount obtained in Step 1 by the amount obtained in Step 2.

Taxable supplies made in periods in accounting year

All supplies made in accounting year

Input tax that can be claimed as a deduction or credit in the prescribed accounting periods is the product obtained by multiplying the amount obtained in Step 4 by the amount obtained in Step 3, less the amount already reclaimed in earlier accounting periods in that accounting year.

Taxable supplies made in periods in accounting year

All supplies made in accounting year

X

VAT payable on supplies in that accounting year

Less amount reclaimed in earlier accounting periods in that accounting year

Fourth Method

- Step 1** - Divide input tax for the prescribed accounting year into categories:-
- Category A - input tax that is directly attributable to taxable supplies
 - Category B - input tax that is directly attributable to exempt supplies
 - Category C- input tax that is paid for the purpose of the business that is not directly attributable either to taxable or exempt supplies.
- Step 2** - Calculate the value of taxable supplies made in the prescribed accounting year.
- Step 3** - Calculate the value of all supplies in that year.
- Step 4** - Divide the amount obtained in Step 2 by the amount obtained in Step 3, i.e.

Taxable supplies made in periods in accounting year

All supplies made in accounting year

A proportion of input tax in Category C above, equal to the proportion mentioned in Step 4, is deemed attributable to taxable supplies and may together with the amount in Category A be claimed as a deductible or credit for the prescribed accounting year, to the extent that it exceeds any amounts already deductible or credited in earlier prescribed accounting periods in that accounting year.

$$\frac{\text{Taxable supplies in accounting year}}{\text{All supplies in accounting year}} \times \text{Category C} + \text{Input tax directly attributable to taxable supplies (Category A)}$$

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DUE DATES REMINDERS

Insurance
Premium Levy

18th of
every month

Tourism
Levy

14th of every
month

Excise

15th of
every month

Value Added
Tax (VAT)

18th of
every month

Withholding
Value Added
Tax (WVAT)

16th of every
month





98 +7.86 3.62%
2 -3.21 -2.56%
57 +4.12 5.33%
5 +1.25 7.48%
7 -2.32 -4.14%
5 +3.51 1.31%

02
17
47
65
84
68
36
14
10
06
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41
27
31

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