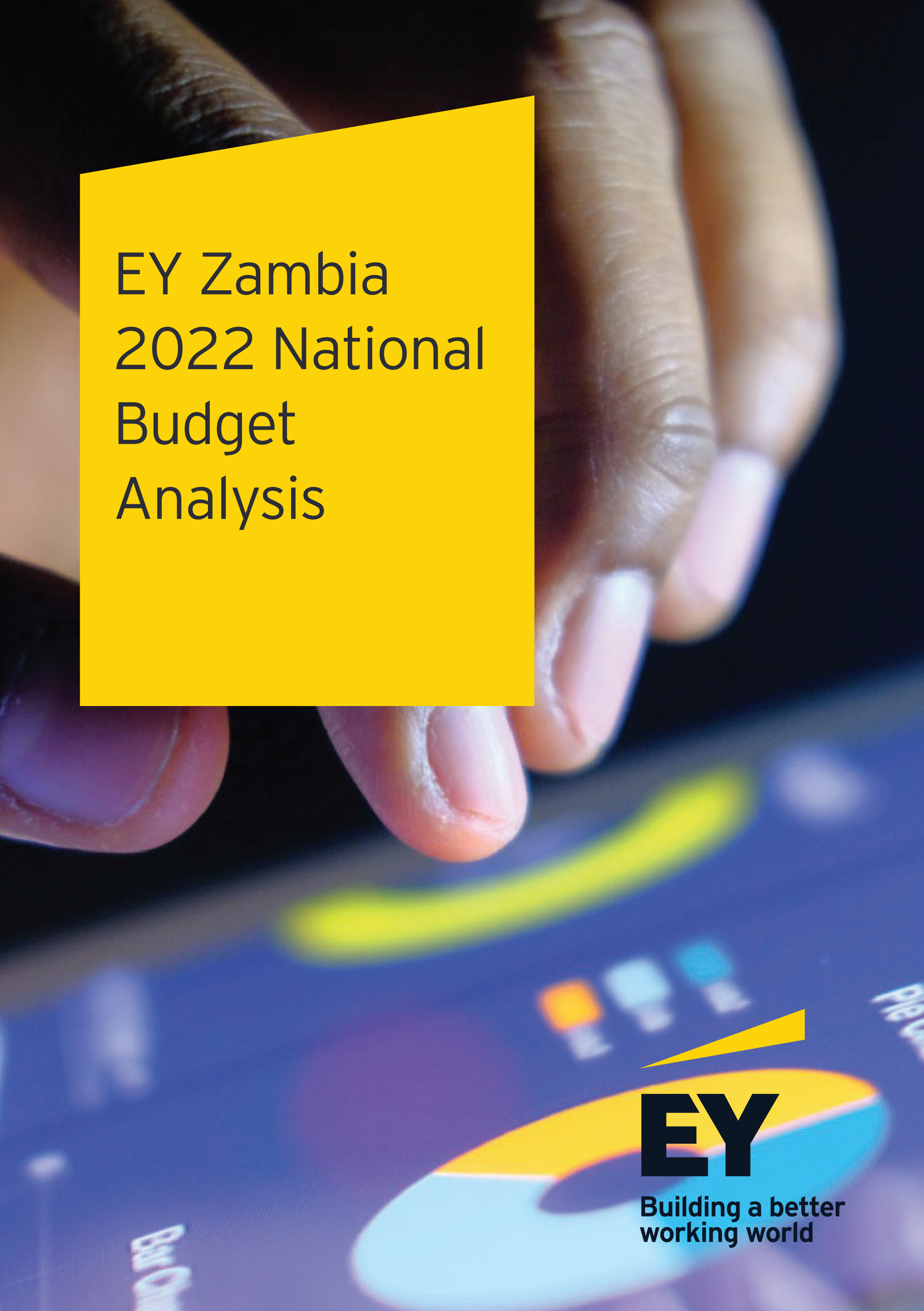
EY Zambia 2022 National Budget Analysis



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- **Audit & Assurance**
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At EY, we believe that managing your tax obligations responsibly and proactively can make a critical difference.

We create highly networked teams that can advise on planning, compliance and reporting and help you maintain constructive tax authority relationships – wherever you operate. Our technical networks across the globe can work with you to reduce inefficiencies, mitigate risk and improve opportunity.

Our tax professionals offer services across all tax disciplines to help you thrive in this era of rapid change.

Our globally coordinated tax professionals offer connected services across all tax disciplines to help you thrive in an era of rapid change. We combine our exceptional knowledge and experience with the people and technology platforms that make us an ideal partner for your tax-related needs.

EY has competencies in business tax, international tax, transaction tax and tax-related issues associated with people, compliance and reporting and law. We invite you to leverage our experience, knowledge and business insights to help you succeed.

Tax function operations

For today's Tax function to be fit to operate in the future, it has to be connected. EY's Connected Tax offers both a blueprint and a business platform for building a future-proof Tax function that can help you respond to demands.

If your organization is looking to drive value, manage costs and mitigate risk, EY Connected Tax can help you design and implement the effective means of operating a business tax function. We help define what it means to operate "best in class" and "best in cost," with a blueprint for dividing functional activities to reach the desired result from technology to talent.

We have both a blueprint and a business platform for building the kind of future-proof tax function that helps you respond to demands, while also laying the groundwork for a transformed tax function fit for ongoing change.


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2022 National Budget Overview

The 2022 National budget was presented by the Honourable Minister of Finance and National Planning on 29th October 2021.

The theme of the debut Government's 2022 Budget is **"Growth, Jobs and Taking Development Closer to the People"** and is the first step towards achieving the Government's vision of transforming the economy. The 2022 budget, therefore, provides incentives to support higher output and production of a wider range of products which will create employment opportunities for the people and in turn improve their livelihoods. Through the 2022 budget, Government will therefore increase support to the social sectors and social protection programmes. Resources, thus, will be taken closer to the people to improve service delivery and involve citizens in decision – making.

The budget has been designed with the aim of restoring macroeconomic stability and growth, attain debt and fiscal sustainability, and improve the livelihood of the Zambian people, especially the vulnerable. The 2022 National Budget rests on the four pillars outlined in the Presidential Address delivered to the First Session of the Thirteenth National Assembly on 10th September 2021 that has set the Government's policy direction. The four (4) pillars are:

a. Economic Transformation and Job Creation;
b. Human and Social Development;
c. Environment Sustainability; and
d. Good Governance Environment.

In order to achieve the budget objectives and targets for 2022, Government has proposed to spend ZMW173.0 billion (2021: ZMW119.6 billion).

In 2022, the national budget will be financed as follows:

ZMW98.86 billion (2021: ZMW65.98 bn)

Domestic revenue

ZMW1.82 billion (2021: ZMW1.99bn)

Foreign grants

ZMW24.46 billion (2021: ZMW17.4 bn)

Domestic borrowing

ZMW47.85 billion (2021: ZMW34.2bn)

Foreign financing

Performance of 2021 National Budget

The 2021 national budget themed "Stimulate Economic Recovery and Build Resilience to Safeguard Likelihoods and Protect the Vulnerable" was aimed at stimulating economic recovery through practical and tangible support to businesses.

The budget was also aimed at enhancing social protection response programmes to prevent the worsening of poverty levels despite constrained fiscal conditions.
The 2021 budget was designed with a view to mitigate the negative effects of the COVID – 19 pandemic through a medium – term Economic Recovery Programme (ERP), a successor to the Economic Stabilisation and Growth Programme (ESGP) which ended in 2019. The ERP provides incentives to reinvigorate growth and build resilience while safeguarding livelihoods and protecting the vulnerable. It also contains measures to restore debt sustainability.

The projected total budget for the year was K119.6 billion (32.6% of GDP) of which 56.9% of the amount was to be financed from domestic revenues and grants while 43.1% was to be raised through financing.

In 2021, Government sought to achieve the following five (5) macroeconomic objectives with the medium – term focus of containing the spread of the Corona virus, mitigating the effects of the pandemic, and restoring macroeconomic stability as well as growth:

i. Achieve a real GDP growth of at least 1.8%;
ii. Reduce the inflation rate towards the 6 – 8% medium – term target;
iii. Increase gross international reserves to at least 2.5 months of import cover;
iv. Reduce the fiscal deficit to 9.3% of GDP; and
v. Achieve domestic revenue collection of not less than 18.0% of GDP.

The Zambian economy is on a steady growth trajectory recovering from the adverse effects of the COVID – 19 pandemic. According to projections by the Zambian Government, the Zambian economy is poised to grow by 3.3% in 2021 higher than the projected growth target of 1.8% envisaged in the 2021 national budget. Preliminary estimates indicate that the real GDP grew by 0.5% and 8.1% in the first and second quarter of 2021, respectively. The rebound in economic growth in 2021 from a contraction of 2.8% in 2020 is on account of positive growth in agriculture, manufacturing, information and communication technology, education sectors as well as electricity, and public administration sub sectors underpinned by the expansion of the COVID – 19 vaccination programme. However, the forecast is dependent on the evolution of the COVID – 19 pandemic which poses major risks domestically and globally due to disruptions in business operations.

Other risks to the growth of the Zambian economy include:

i. Limited fiscal space to respond to a prolonged COVID – 19 pandemic;

ii. Debt vulnerabilities and protracted debt restructuring activities; and

iii. Rising costs of production largely associated with rising energy costs and depreciating currency.

Annual overall Inflation has remained substantially above the target range of 6–8% envisioned by the 2021 national budget, and as of October 2021 stood at 21.1%. Thus, inflation has maintained an upward trend in the first ten months of 2021 and averaged 22.9% compared to 15.2% over the same period in 2020 way beyond the target range of 6–8%. Recent developments in the exchange rate, however, point to near – term disinflation. The increase in inflation was largely on account of increase in prices of food items such as meats, fish, coffee, tea, and cocoa. Average food inflation has been on the upswing from 14.6% in October 2020 to 28.1% as at October 2021. The annual non – food inflation was recorded at 13.2% for October 2021 from 17.7% as at October 2020 suggesting a downward trend. The upside pressures on overall inflation over this period have therefore emanated from food inflation. The elevated annual overall inflation has been driven by sustained depreciation of the local currency as well as constrained supply of some meat, fish, and vegetables products.

Gross International Reserves rose to about US$2.9 billion as at end of August 2021 from US$1.20 billion as at end – December 2020. This is equivalent to 5.4 months of import cover in contrast to the 2.5 months of import cover target in the

Annual overall Inflation has remained substantially above the target range of 6–8% envisioned by the 2021 national budget, and as of October 2021 stood at 21.1%. Thus, inflation has maintained an upward trend in the first ten months of 2021 and averaged 22.9% compared to 15.2% over the same period in 2020 way beyond the target range of 6–8%.

2021 national budget and 2.4 months of import cover as at end – December 2020. With two (2) months remaining before the end of the year, the target of 2.5 months cover is attainable. The increase in Gross International Reserves mainly followed the receipt of the International Monetary Fund Special Drawing Rights 937.5 million allocation equivalent to US$1.33 billion as well as net market purchases of foreign exchange by the Bank of Zambia.

Regarding to the exchange rate of the domestic currency, the depreciation rate of the Zambian Kwacha against the US Dollar reduced to 3.6% to an average of K22.41 in the second quarter compared to 4.4% in the first quarter following an improvement in the supply of foreign exchange, mostly from foreign portfolio investors and mining companies. In general, the Kwacha strongly appreciated between December 2020 and September 2021 on account of improved portfolio investment flows. The Kwacha appreciated by 22.4% to monthly average of K16.37 per US dollar in September 2021 from K21.09 in December 2020.

In 2021, the overall budget performance has been unfavourable on account of higher than planned expenditure despite revenue exceeding the target. Over the first nine months of 2021, revenues and grants amounted to K77.0 billion against the target of K51.1 billion, giving a positive variance of 50.7%. The positive performance was mainly attributed to a dividend receipt from Bank of Zambia, higher collections from mineral royalty and corporate income tax from mining firms. The improved collections from the mining sector were mainly driven by higher copper prices and the depreciation of the kwacha against the United States dollar. Total revenues and grants for the fiscal year 2021 are projected at K96.8 billion against the target of K68.0 billion. Total expenditures on the other hand for the period January 2021 to September 2021 amounted to K112.9 billion and was 25.7% above the target of K89.8 billion. This was largely due to higher than programmed spending on subsidies on agricultural inputs and fuel, election related expenditure as well as domestically financed capital projects. Expenditure at K139.0 billion, 16.2% above the target of K119.6 billion. The fiscal deficit, on a cash basis, is projected at K39.0billion or 10.4% of GDP by the end of 2021, which is above the target of 9.3%.

Therefore, estimations indicate a relatively larger than the projected 9.3% fiscal deficit by the 2021 national budget. The outturn has been attributed to higher disbursements under Use of Goods and Services, Transfers and Other payments. In addition, domestic debt service has been higher than projected on account of principal repayments on commercial bank facilities and higher releases on domestic debt interest due to Farmer Input Support Programme financing for the 2020/21 farming season and liquidation of outstanding fuel arrears.

With regards to the country's debt position, as at end – of September 2021, the stock of public external debt amounted to US$14.71 billion. Of the amount, central Government external debt was US$12.99 billion while the guaranteed external debt and non-guaranteed external debt for State Owned Enterprises was US$1.56 billion and US$164.52 million, respectively. Central Government external debt increased by 2.0% to US$12.99 billion as at end of September 2021 from US$12.74 billion as at end December 2020. This was on account of disbursements from multilateral creditors and few other creditors funding priority projects, particularly in the health sector.

From the review of the performance of the economy in 2021, it is evident that the Zambian economy is at crossroads. Economic growth is low, debt has reached unsustainable levels, fiscal space or public finances are constrained and the cost of living has escalated beyond the reach of many Zambians. Furthermore, successive strenuous COVID – 19 pandemic waves continue to cause damage to the economy and create uncertainty to the growth outlook.


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2022 National Budget

The 2022 national budget has been prepared amidst numerous socio – economic and environmental challenges exacerbated by the COVID – 19 pandemic and the uncertainty it impacts on future growth prospects.

The global economy is expected to rebound in 2021 and grow by 5.9%. In 2020, the global economy contracted by 3.1%. The recovery in growth in 2021 is attributed to the relaxation of COVID – 19 restrictions that allowed for resumption of economic and other activities. Further, increased spending by Governments and provision of liquidity by central banks aided the recovery. In Sub Sahara Africa, growth is projected at 3.7% in 2021 compared to a contraction of 1.7% in 2020 buoyed by the global recovery, higher commodity prices, increased trade, and an increase in mining output especially for larger economies such as South Africa. On the domestic front, the Zambian economy is projected to grow by 3.3% in 2021 higher than the earlier in the year estimation of 1.6% by the Ministry of Finance in its 2021 mid-year economic report.

The economic outlook for 2022 and the medium term, whilst positive remains uncertain in view of the challenges of slow growth, high inflation and high debt levels exacerbated by the COVID – 19 pandemic. The macroeconomic objectives for 2022 will, therefore, aim to restore growth and improve human development in line with the overarching objectives of the draft 8th National Development Plan (8NDP). To move forward the Administration plans to achieve the following objectives for 2022 and herewith under our commentary:

▶ **Attain a real GDP growth rate of at least 3.5% (2021: 1.8%)**

Commentary: The attainment of the objective though feasible is dependent on the evolution of the COVID – 19 pandemic and how the country can respond to a prolonged pandemic, debt vulnerabilities and protracted debt restructuring activities. The real GDP and growth rate target for 2022 at 3.5% is higher than the modest target of 1.8% for 2021 and may only be attained if fiscal space is widened, huge foreign debt restructured with reduced debt repayment obligations and with an IMF supported economic recovery programme.

- **Reduce the inflation to single digits by end - 2022 and within the target band of 6 - 8% by mid - 2023**

Commentary: This objective has not been attained as of October 2021 and is unlikely to be attained by end 2021 as it is currently hovering around 21%. Our expectation is that overall annual inflation will remain above the upper bound of the 6 - 8 % medium term range but will steadily decline dependent on good agricultural output in 2021/2022 season, improved electricity supply and government managing to lengthen tenors of its foreign debt resulting in reduced foreign debt servicing. This should be supported by an appropriate monetary policy stance, fiscal discipline and adherence to set austerity measures. However, we expect fiscal pressures to remain elevated on account of the expansionary budgetary plans for 2022.

- **Limit international reserves to at least 3 months of import cover (2021: 2.5 Months)**

Commentary: The objective is attainable as the Gross International Reserves (GIR) stood at US$2.9billion equivalent to 5.4 months cover as at the end of August 2021. The target is less than what the Country's GIR was as at end of August 2021. In 2021, Government intended to increase GIR to not less than 2.5 months of import cover, an objective which has been met on account of the receipts of the IMF SDR937.5 million allocation translating into US$1.33 billion as well as net market purchases of foreign exchange by the Bank of Zambia amounting to US$152.4 million in July and August of 2021.

In 2022, the foremost drawback risk to meeting the set objective is if the drawdown on the GIR is significantly higher than planned to finance the social spending particularly in education and health.

- **Reduce the fiscal deficit to no more than 6.7% of GDP (2021: 9.3%)**

Commentary: Fiscal deficit in 2021 on a cash basis is projected to close the year at 10.4% higher than the target of 9.3% and could be much higher if considered on both cash and commitment basis. Due to continued subdued economic activity on account of the COVID - 19 pandemic, as well as reduced revenue collections and expected increased expenditures in health, education, and agriculture, it is unlikely that this target would be met in 2022.

- **Increase domestic revenue to not less than 21.0% of GDP (2021: 18%)**

Commentary: In 2021, domestic revenue collections were poised to increase and in the first half of the year was K49 billion, above the target of K33 billion according to preliminary data from the Ministry of Finance. Thus, the 2022 objective on domestic revenue is only attainable if economic recovery is enhanced and business activities pick up coupled with widening of the tax base. We expect lower than targeted domestic revenue collections in 2022 on account of the over-hung effects of the COVID - 19 pandemic pervasive. This can, however, be countered by increase in compliance levels and sealing of revenue leakages for most tax measures particularly when the Zambia Revenue Authority Systems are interfaced with the Government Service Bus and other systems as proposed in the 2022 national budget. Further introduction of innovative revenue collection measures such as the addition of 100 more public services to the Government Service Bus and Payment Gateway will contribute to improved revenue collections.

- **Limit domestic borrowing to no more than 5.2% of GDP**

Commentary: This objective is only attainable if Government secures an IMF supported economic recovery programme which will make Zambia attractive for foreign inflows including support from other cooperating bilateral and multilateral partners.

2022 National Budget Sector Policies

In seeking to achieve the macroeconomic objectives earlier outlined, Government has proposed a number of sector policies founded on four thematic areas of: Economic Transformation and Job Creation; Human and Social Development; Environment Sustainability; and Good Governance.

Economic Sector	Sector Policies
Agriculture, Fisheries and Livestock	▶ Government will implement a new comprehensive agriculture support programme commencing in the 2022/2023 season which will be cost effective, better targeted and equitable across beneficiaries compared to the current Farmer Input Support Programme (FISP). ▶ Promote development of viable farm blocks such as Nansanga Farm Block in Serenje. ▶ Operationalise on-going irrigation infrastructure projects and mobilise highly concessional financing for irrigation equipment for small - scale farmers. ▶ Recruit more extension officers to enhance provision of services to livestock farmers. ▶ Government is investing in a liquid nitrogen plant that will support increased use of artificial insemination. ▶ Livestock stocking and restocking as well as support for livestock infrastructure. ▶ Government will strengthen monitoring and fisheries conservation efforts in Zambian natural water bodies. ▶ Government will establish additional hatcheries for fingerlings and completion of other infrastructure such as aquaculture parks. ▶ To enhance agricultural production, productivity, and diversification, K5.4 billion proposed for agricultural inputs to support one million beneficiaries through the FISP to be implemented via the comprehensive agriculture support programme (2021: K5.7 billion). ▶ In 2022, K960 million has been proposed to be spent on national strategic food reserve (2021: K517.5 million).

Economic Sector	Sector Policies
	▶ To improve productivity through mechanization in the agricultural sector, Government proposes to zero rate Value Added Tax on selected Agricultural equipment and accessories which include: • Manure spreaders • Bales • Combine Harvesters • Commercial Sprinkler irrigation systems • Animal Feed Grinder - Mixer • Pelleting machines • Sprayer • Trailers of specific HS code • Dryers for agricultural products of a specific HS code ▶ Propose to remove 5% customs duty on importation of cattle breeding stock. ▶ To address the shortage of day-old chicks, propose to suspend the 5% customs duty on grandparent and/or parent stock of day-old chicks when imported by a breeding Company for a period of 12 months effective 1st November 2021. ▶ Propose to remove the 10% export duty on maize to open the market for maize while ensuring food security. ▶ Propose to remove the 5% surtax on importation of Bovine Semen.
Manufacturing and Industrialisation	▶ To attract investment and help to concretise value addition, the Government will reinvigorate the programme of Multi - Facility Economic Zones and Industrial Parks through the provision of tax incentives that will attract private sector investment into these zones. ▶ Government will comprehensively review the Country's investment promotion strategy. ▶ Government will promote access to export markets through trade missions as well as provisions of trade facilitation and support services to markets such as the Tripartite Free Trade Area and African Continental Free Trade Area. ▶ To facilitate trade to the Great Lakes region, the capacity of Mpulungu Port will be expanded in the medium - term to handle more than 800,000 metric tonnes of Cargo per annum from the current 200,000 metric tonnes. ▶ To help reduce the cost of doing business, Government will rationalise the number of licenses and permits required to operate a business. ▶ To support business growth and expansion, Government will amend the National Pension Scheme Act Cap 256 of the laws of Zambia to make the penalties regime less punitive to employers. ▶ To enhance the smooth operations of the Small and Medium Enterprises (SMEs), Government will provide support to SMEs and cooperatives ranging from infrastructure development as well as access to markets and credit. ▶ Government has made provisions to guarantee the borrowing of SMEs through the Zambia Credit Guarantee Scheme in 2022. ▶ To promote the manufacturing of ceramics products, Government proposes to suspend corporate income tax for persons carrying on the business of manufacturing ceramic products for the charge years 2022 and 2023.

Economic Sector	Sector Policies
	▶ To allow Companies to retain some funds for further investments as well as attract foreign direct investments, Government proposes to reduce the standard corporate income tax rate to 30% from 35%. ▶ To promote competitiveness of plastic products, Government proposes to remove 5% customs duty on filler masterbatch. ▶ To promote agro - processing, Government proposes to extend to 31st December 2022 suspension of customs duty on importation of refrigerated trucks and extends the relief to processors of milk and medicaments. ▶ To promote the growth of the ceramic industry, Government proposes to increase customs duty to 25% from 15% on floor and wall tiles imported from outside the COMESA and SADC regions. ▶ To promote local manufacturing industry, Government proposes to increase customs duty to 25% from 5% and 15% on yarn made from acrylic fibre of specific HS codes imported from outside the COMESA and SADC regions. ▶ To promote domestic production and create jobs, Government proposes to: • Introduce surtax at a rate of 5% on imports of yarn made from acrylic fibre of specific HS Codes. • Introduce surtax at the rate of 5% on knitted or crocheted jerseys, pullovers, cardigans, waist coats and similar articles. • Introduce surtax at the rate of 10% on imported cement bags. • Introduce surtax at the rate of 20% on imported glass on selected HS Codes. ▶ To revamp and remodel the Multi Facility Economic Zones and make the incentives more targeted, Government proposes to: • Introduce zero % tax for period of 10 years from first year of commencement of works in the Multi Facility Economic Zone or Park, on dividends declared or profits made on exports by Companies operating in these zones under the Zambia Development Agency Act No. 11 of 2006. • Introduce zero % tax for a period of 10 years from 1st year of commencement of works in a Multi Facility Economic Zone or Park, on dividends declared of profits made on exports by Companies operating in these economic zones under the Zambia Development Agency Act No. 11 of 2006. For years 11 to 13 only 50% of profits should be taxed and 75% of profits for years 14 and 15; and • Reduce the threshold to US$50,000 for Zambian citizens to qualify for incentives provided under the Zambia Development Agency Act No. 11 of 2006.
Tourism	▶ Cognisant of the expected gradual recovery of global tourism market, relief measures provided to the sector in 2021 will be extended for another year. ▶ Government will review the multiplicity of licenses.

Economic Sector	Sector Policies
	▶ In the next five years, Government will develop other parts of the Country by establishing the necessary infrastructure that will make them attractive for the private sector to establish hotels, lodges, and other tourism facilities. Immediate interest is to complete developments at Kasaba Bay in the Northern Circuit and the Liuwa National Park. ▶ Government proposes to extend the 15% corporate tax rate on income earned by hotels and lodges on accommodation and food services to 31st December 2022 from 31st December 2021. ▶ Government will continue to cushion the tourism sector amidst the COVID - 19 pandemic. Government, therefore, proposes to extend the waiver of customs duty on safari game viewing vehicles, tourism buses and coaches to 31st December 2023. This will only apply to accommodation establishments, conventional centres, and tourism enterprises.
Mining	▶ Government will facilitate the increase in copper output from the current 800,000 metric tonnes to over 3 million metric tonnes in a decade. ▶ To promote the growth of small-scale mining, Government will formalise operations of artisanal miners through the formation of cooperatives especially for the youth and women. ▶ Government is undertaking a comprehensive audit of the mining licenses issued to help develop and implement reforms to enable Zambians participate in the sector. ▶ To attract investment and boost production in the sector, Government proposes to re-introduce the deductibility of mineral royalty for corporate income tax assessment purposes. ▶ To align with the current legislation on tax carry forward limit of loses, Government proposes to increase the period of disallowed interest deduction carry forward to 10 years from 5 years. ▶ Government proposes to extend property transfer tax on transfers of mineral processing and other mine related licenses at the applicable rate of 10%.
Energy	▶ To ensure an effective energy sector, reforms will be undertaken in the electricity and petroleum sub - sector. In the electricity sub - sector, Government will implement a Renewable Energy Investment Plan that will improve the energy mix. ▶ Government will review the operations and efficiency of ZESCO. Power - Purchase agreements are being re-negotiated as part of the strategy to sustain the Company. ▶ Government will implement cost - reflective tariffs in the electricity sub - sector. ▶ Government will scale up the programme of rural electrification through the extension of the grid network as deployment of the off - grid electrification solutions.

Economic Sector	Sector Policies
	▶ In the petroleum sub sector, Government will restructure the fuel supply chain and achieve least cost pricing while ensuring stable supply of petroleum products.
Transport Sector	▶ Priority will be placed on maintenance, rehabilitation and upgrading of feeder roads. ▶ Government commenced the improved rural connectivity project to maintain and rehabilitate a total of 4,300 kilometers of rural feeder roads. ▶ To overhaul the existing line and construct new railway spurs as well as roads, Government will aggressively pursue Public - Private Partnerships as a mode of financing. ▶ In the aviation sub - sector, focus will be on completion of Kasama and Mbala airports.
Social Protection Programmes	▶ In 2022, the social cash transfer programme will be scaled by increasing the number of beneficiaries and the transfer value. ▶ In 2022, the number of beneficiary households under the programme will be increased to over one - million from the 880, 539 as at end of August 2021. ▶ Further, the transfer value per household will be increased from K150 to K200 per month. For households, with a disabled member, the transfer value will be increased from K300 to K400 per month. ▶ In 2022, Government will increase the number of beneficiaries of the Food Security Pack programme from 263,700 as at end of August 2021 to 290,000 households. The programme is targeted at the vulnerable but viable farmers. ▶ Government will dismantle all the outstanding pension benefit arrears for retired public service workers which stood at K1.9 billion in 2021.
Education and Skills Development	▶ To reduce the backlog of unemployed teachers and improve the quality of education by reducing the Pupil - Teacher ratio, Government will recruit 30,000 teachers in 2022. ▶ To improve the quality of education through the provision of teaching and learning materials, grants to primary schools will be increased three-fold in 2022. ▶ To increase access to education, Government will construct additional 120 secondary schools. ▶ To further increase access to education, tuition, Parent Teachers Association, and examination fees that learners pay in public schools will be abolished. ▶ Regarding boarding fees for secondary school learners, a bursary scheme will be introduced for the vulnerable learners. ▶ Government intends to expand the support to the girl child through the keeping girls in school programme from the current 28,964 in 2021 to 43,520 girls in 2022.
Health	▶ In 2022, Government will recruit and equitably deploy 11,200 Health personnel to strengthen the health care system.

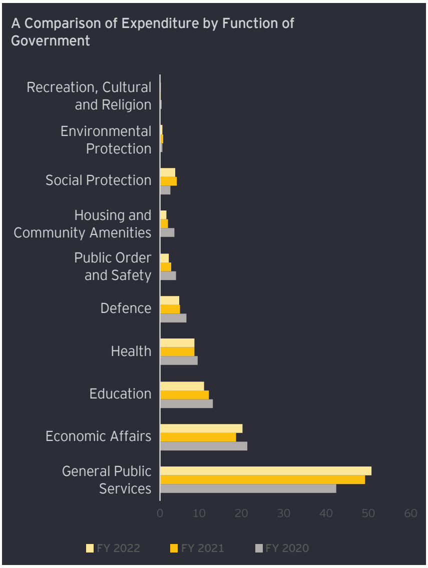
Economic Sector	Sector Policies
	▶ The procurement of medicines and medical supplies will be undertaken by the Zambia Medicines and Medical Suppliers Agency in accordance with the Zambia Medicines and Medical Supply Agency Act No. 9 of 2019.
	▶ Government will continue with the programme of construction and completion of Health Infrastructure throughout the Country.
	▶ To ensure that healthcare is affordable, Government will reform the National Health Insurance Scheme to benefit all.

2022 National Budget Summary of Expenditure

In 2022, the Zambian Government proposes to spend a total of K173.0 billion equivalent to 37.1% of GDP compared to K.119.6.0 billion in 2021 which was 32.6 % of GDP.

Tables 1 and 2 provide the overview of the 2022 national budget and compares it to the 2021 and 2020 national budgets. Government proposes to increase spending in all the functions by Government classification with the largest increase in general public services expenditure. The increase in general public spending is on account of increased external and domestic debt servicing obligations as reflected in the increase in proposed expenditure on general public services by functions of government which is 49.9 % as a share of the total budget for 2022. K27.4 billion will go towards servicing the domestic debt while K51.3 billion will be for external debt servicing. Government also proposes to increase economic affairs spending which is 19.5% as a share of the total budget for 2022 to support the Government's agenda of economic transformation and job creation. Of the total amount for the function, K4.9 billion has been allocated for road infrastructure while K4 billion will be for the Constituency Development Fund which has been reclassified as an economic function.

The resources allocated to Constituency Development Fund will include funds for development interventions for underserved communities, secondary school, and skills development bursaries to be administered at Constituency level.



Analysis of Budget Allocations

In 2022, General Public Services will receive a total of K86.4 billion from K57.8 billion in 2021 and K44.1 billion in 2020, representing a percentage change of 57.7% and 95.9%, respectively.

Out of the total General Public Services allocation of K86.4 billion, K51.3 billion is for external debt servicing, K27.4 billion for domestic debt servicing and K3.1 billion for dismantling domestic arrears representing 59.4%, 31.7% and 3.6%, respectively, of the total functional allocation. K1.339 billion has been provided for the Local Government Equalisation Fund representing 1.6% of the total functional allocation. The continued allocation for dismantling of domestic arears is meant to inject much-needed liquidity in the economy for the private sector, particularly the Small and Medium Enterprises (SMEs) to spur economic activity.

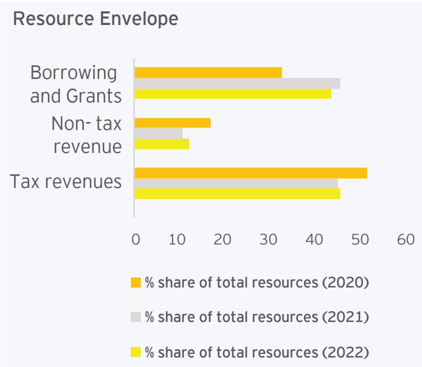
Economic function too received an increase in allocation of 56.7% in 2022 following a reduction in allocation in 2021 of 1.37% and in absolute terms received K21.8 billion in 2020, K21.5 billion in 2021 and K33.7 billion in 2022, respectively. The economic affairs function had an increase in allocation for 2022 on account of the Farmer Input Support Programme (FISP) which received an allocation of K5.4 billion, Constituency Development Fund with an allocation of K3.2 billion and road infrastructure with an allocation of K4.93 billion. Other notable programmes for 2022 include airport infrastructure at K1.04 billion, Strategic Food Reserves at K960 million, empowerment funds for SMEs at K350 million and Nansanga Farms with an allocation of K110 mullion. The increase in allocation reflects Government desire to develop underserved communities, decentralize resources to local communities, grow the agriculture sector and promote the Northern Circuit as a prime tourism destination. Government has also provided for empowerment of SMEs reflecting Government desire to promote the development and increased participation of SMEs in wealth and job creation and ultimately contribute to economic growth of the Country.

In the health sector, the budgetary allocation increased to K13.9 billion in 2022 from K9.7 billion in 2021 by 43.3%. Notable expenditure in the health sector includes an allocation to procure adequate drugs and medical supplies of K3.4billion which increased from K1.4 billion in 2021 and to complete the health infrastructure projects aimed at increasing access to quality health care. The allocation also includes K883 million for operations for hospitals.

The Education function received a notable increase in budgetary allocation for 2022. Budgetary allocation for education has been proposed to be increased to K18.07 billion from K13.8 billion in 2021 representing an increase of 30.9%. The increase in education by function budgetary allocation is on account of budgetary allocations to new programmes such as operations for schools, secondary school, and skills development bursaries to be administered at the constituency level. It is hoped that with these innovative budgeted programmes, operations of schools will be enhanced while access to education for learners at primary and secondary school level from vulnerable families will be increased.

Other functions with notable increase in allocations include social protection, defence, public order and safety, housing and community amenities, environment protection and recreation, culture, and religion. Social protection budget has been proposed to be increased to K6.3 billion in 2022 from K4.8 billion in 2021 while the budgetary allocations for defence and public order and safety have been increased from K5.6 billion in 2021 to K7.6 billion in 2022 and from K3.07 billion in 2021 to K3.4 billion in 2022, respectively. Budgetary allocation for social cash transfer has been increased by 34.8% from K2.3 billion in 2021 to K3.1 billion in 2021 while the budgetary allocation for public service pensions has been increased by 86.9% from K1.07 billion in 2021 to K3.1 billion in 2022. The continued increase in social spending by Government is in a bid to protect the vulnerable and the poor and mitigate against the effects of the COVID – 19 pandemic.

Figure 2: Zambia's Resource Envelope for 2021, 2020 and 2019



In 2022, Government proposes to offer both tax and non – tax reliefs while also taxing other areas coupled with increased tax compliancy levels resulting in increase in tax and non - tax revenues by 46% and 62%, respectively. To finance the K17 billion 2022 budget, Government proposes to increase the share of domestic financing in its resource envelope in 2022 to K24.46 billion from K17.4 billion in 2022 by 40.5%. Government further proposes to increase the share of total foreign financing and grants in 2022 by 37% from K36.2 billion in 2021 to K49.67 billion in 2022. The various proposed tax relief measures to the productive sectors and employees are meant to spur grow for the productive sectors as well as increase disposable income for employees thus resulting in upsurge in consumer spending.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2022 National Budget Tax and Related Measures

Corporate Income Tax

Re- introduce the deductibility of mineral royalty for corporate income tax purposes

Our comment

Mineral Royalty Tax (MRT) in the Mines and Minerals Development Act is defined as a payment received as consideration for the extraction of minerals. The minister has proposed that MRT should be deductible for tax purposes. It should be noted that MRT was tax deductible until the year 2019.

MRT is computed using "Gross value" for most industrial metals and precious stones. Gross value is defined as the realizable price for sale Free on Board (FOB) at the point of export in Zambia or at the point of delivery inside Zambia for the purposes of calculating Mineral Royalties.

For base metals, the MRT calculation is based on "Norm Value". Norm value is calculated based on the monthly average London Metal Exchange (LME) cash price per metric ton multiplied by the quantity of the metal or recoverable metal sold or the average cash price if the metal is not quoted. At current copper prices above $9000 per tonne, MRT is calculated at 10% and it is effectively a revenue based non-deductible cost that has resulted in significantly high effective tax rates for mining companies.

The high effective tax rate (over 60% in some instances) has been a disincentive for further investment in the mining sector as it rendered most mining operations uneconomical for shareholders, leading to low investments and growth. Therefore, once this deduction is implemented, it may act as an incentive for mining companies to recapitalise and bring new projects onstream. The Minister has indicated that this change, together with other policies, will boost copper production to over three million metric tonnes over the next decade.

Increase the period for disallowed interest carry forward from 5 to 10 years.

Our comment

Currently the ITA limits deductions of interest to 30% of EBITDA which is calculated based on taxable income. The excess interest above the 30% of Tax EBITDA can only be carried forward for a period of 5 years. This limitation of interest carry forward was not sufficient in many instances, particularly for capital intensive projects due to the following challenges:

- Carry forward of tax losses is limited to five years in most cases except mining and electricity generation companies that have a longer period of ten years.
- For tax purposes, capital allowances cannot be deferred and must be claimed even if a taxpayer does not have taxable income.

Therefore, if an entity is conducting a capital-intensive project with substantial investments funded through loans (in many cases with accelerated capital allowances), excess interest credits are likely to expire before they are utilised.

With the proposed change, companies with non-deductible interest will have a longer period in which to claim excess interest despite the initial capital investments. However, it will still be advisable for taxpayers to prepare rigorous models that optimise the timing of capital expenditure and borrowing.

Reduce the standard Corporate Income Tax rate from 35% to 30% except for telecommunication companies whose top marginal tax rate is to be maintained at 40%

Our comment

The reduction of the corporate tax rate by five percent is commendable and will provide much needed relief for taxpayers that are in a tax paying position. However, as we pointed out in our commentary on the 2021 budget with respect to the reduction of the rates for the tourism industry, there is a risk that many companies that are still suffering depressed performance due to COVID-19 will suffer an erosion of their tax loss assets and will have to recognise valuation allowances, leading to further deterioration of their performance. Furthermore, the significant difference between the top rate of personal tax (37.5 percent) and the new corporate tax rate may lead to tax avoidance through arbitrage. Taxpayers in a taxpaying position should update their tax modelling to determine the impact of the tax rate reduction. Taxpayers, particularly those with

tax losses brought forward should evaluate the potential valuation allowances that will arise due to the rate reduction.

Maintain Corporate Income Tax Rate on income earned by hotels and lodges on accommodation and food at 15 percent up to 31st December,2022

Our comment

The tourism industry has been affected by the COVID 19 pandemic and consequent restrictions on travel and tour activities. The extension of this measure by the minister, despite pressure for the government to protect its revenue base will further promote growth in the sector. This reduced corporate tax rates should encourage more investment in the tourism sector. Our comment with respect to valuation allowances above also applies in this instance.

Reform the Rental Income Tax regime by charging Turnover Tax at 4 percent for income below K800,000 per annum. For rental income above K800,000, the income tax regime for individual or corporate will apply

Our comment

All rental income was previously subject to withholding tax at 10%, irrespective of the level of income whereas most other sources of income below K800,000 were taxed under the Turnover Tax rate of 4 percent. This measure provides symmetry between the taxation of rental income and other sources of income.

Extend the tax exemption relating to payments of interest to all interest-earning bank accounts held by individuals

Our comment

This is to encourage a culture of saving and promote financial inclusion. The government's proposal to extend the tax exemption relating to payments of interest to all interest-earning bank accounts held by individuals is a welcome measure.

Suspend Corporate Income Tax for persons carrying on the business of manufacturing ceramic products for the charge years 2022 and 2023

Our comment

This measure is meant to protect local manufacturers and make them more competitive among other key players in the industry in the given period of 2 years.

Transfer Pricing

Amend Transfer Pricing Regulations to introduce two new schedules to provide for submission of information required under international obligations for Country by Country (CbC) reporting and amend the threshold for the requirement to file a CbCR to only reflect the local currency amount of ZMW4,795 million

Our comment
In 2021, the Government released Country by Country (CbC) regulations that provided for the automatic exchange of CbC reports with other tax jurisdictions for members of Multinational Enterprise (MNE) groups operating in Zambia. These regulations sought to provide clarity regarding the procedure to be followed when filling a CbC report with the Commissioner General. These regulations provided for the parent entity or any other designated entity, that is a tax resident in Zambia and is in an MNE group with an annual consolidated revenue exceeding €750 million or ZMW4,795 million to prepare and file the CbC report.

The 2022 budget amends this regulation to only reflect the local currency threshold of ZMW4,795 million (approx. €239 million).

It is noted that there is a discrepancy between the local currency threshold, and the Economic Co-operation and Development (OECD)s recommendation of €750 million. We recommend that the government adjust the threshold to reflect the OECDs recommendation.

The local currency only threshold is less than a third of the largely global minimum of €750 million. This will result in multinational enterprises that are well below the global minimum having to prepare costly CBC reports specifically for Zambia. We further note that the implementation of CbC reporting, which became effective in 2021, was aimed at improving transparency in the operations of MNE's by providing information to the revenue authority on the group's allocation of income, taxes and business activities on a tax jurisdiction by tax jurisdiction basis. However, Zambia is not a signatory to the Multilateral Instrument (MLI). The MLI provides a mechanism through which revenue authorities can negotiate treaties and share information between each other. In the absence of the MLI, Zambia will have to renegotiate each treaty individually to give effect to the all CbC reporting requirements.

Overall, the additional measures are a continuation of what has so far been piecemeal legislative changes to implement the OECD BEPS agenda. In its recently

released BEPS Inclusive Framework on CbC reporting-compilation of 2021 Peer Review Report, the OECD noted that Zambia had lagged behind in implementing CbC Reporting.

The Report also indicated that Zambia had not taken steps to ensure that the appropriate use of CbC reports is met ahead of the first exchange of information agreements under Action 13. The ability of a jurisdiction to obtain and use CbC reports is conditional upon it using CbCR information appropriately. In this respect, appropriate use is restricted to:

- high level transfer pricing risk assessment,
- assessment of other BEPS related risks and
- economic and statistical analysis, where appropriate.

The Government needs to ensure that it puts measures in place to address the areas of concern raised in the report failing which multinationals cannot be legally compelled to share CbC reporting information.

Amend Transfer Pricing Regulation to clarify the conditions under which a local entity will not be required to file the Country by Country (CbC) Report

Our comment
The amendment clarifies the conditions under which a local entity will not be required to file a CbCR. Sub regulation 7 of Statutory Instrument No. 117 OF 2020 provides a detailed description of the circumstances under which a local entity is exempt from filing a CbCR.

Amend the Transfer Pricing Regulations to allow Regulation 11 to refer to Section 97A (1) and 97A (2) of the Income Tax Act in order to align it with the changes made by amendment Act No. 20 of 2020

Our comment
Section 97A (1) of the Income Tax Act defines the terms "actual conditions" to mean conditions made or imposed between any two associated persons on their commercial or financial relations, while Section 97A (2) defines "arm's length conditions" as the conditions which would have been made or imposed if the persons were not associated with each other.

Regulation 11 defines the factors that are to be considered in determining the comparability between a controlled and an uncontrolled transaction.
Before the proposed amendment, Regulation 11 only made reference to Section 97A(2). This amendment therefore provides further clarity with regards to the comparability factors to be considered by making reference to 97 A (1) and 97A (2).

House Keeping Measures-Income Tax

Make Public Benefit Organization approvals issued under the Income Tax Act renewable and align the renewal with the renewal process under the Customs and Excise Act

Our comment

This measure aims to make it mandatory for Public Benefit Organizations to renew their tax relief approvals under the Income Tax Act every three years, in order to align with the three-year renewal period under the Customs and Excise Act. Previously, the income tax Act did not provide for a renewal term, therefore PBOs that were granted would continue to benefit from tax savings even if they no longer qualified for relief.

Amend Paragraph 1 (1) (b) of the Charging Schedule to require persons with disability to be registered with the Zambia Agency for Persons with Disabilities

Our comment

The reform is designed to make claiming a disability tax credit easier, especially for claims made in previous charge years. It would also integrate the requirements for claiming the disability tax credit with those for claiming a Customs rebate under Regulation 87A of the Customs and Excise Department.

Amend Section 82A by deleting Sub-sections (2A) and (3) and amend sub- section (4) in order to align it with the changes that were made to Section 82A in the 2021 Budget

Our comment

The measure proposes to change Section 82A by removing Subsections (2A) and (3), as well as the filing and payment obligations, which are already adequately provided for following automation. Furthermore, the bill seeks to establish that both a return and a tax payment must be submitted and completed within 14 days after the end of the month in which a payment subject to withholding is made.

To revise upwards the bands for presumptive taxes

Our comment

The last time the presumptive tax categories for motor vehicles used for passenger transportation were reviewed was in 2018. The proposal updates the bands to take inflation into account.

Other measures

- Amend the Tenth Schedule of the Income Tax Act, which provides the list of activities that can qualify an organisation as a Public Benefit organisation to clarify the wording and also clarify that the provision of higher education by a public university is a public benefit activity.
- Introduce a definition for "winnings" in Section 2 of the Income Tax Act.
- Amend the Ninth schedule to change the definition for "Gross Takings" in the Income Tax Act.

Withholding Tax

Introduction of 20 percent Withholding tax on reinsurance placed with reinsurers not licensed in Zambia.

Our comment
We understand that the newly introduced Withholding tax on reinsurance placed with reinsurers not licensed in Zambia is set to make the reinsurance market in Zambia more competitive, and in doing so, discourage the placing of policies offshore.

Whilst this measure is welcome, we would propose that it excludes secondary reinsurance (reinsurance offshore by Zambian based reinsurers). Secondary reinsurance is important as it allows reinsurance companies to transfer their risk to larger reinsurers.

If this exclusion is not applied, it would have the effect of discouraging reinsurers from transferring their risk offshore and will concentrate all insurable risk into the local market. This would be catastrophic in the case of widespread claims arising from natural disasters, for example, as the local reinsurance industry would not have the resources to absorb the claims.

If no exemption is provided for secondary reinsurance, taxpayers should consider the potential impact on their insured risks. The lack of an exclusion would potentially lead to a two-tier market with taxpayers wishing to have the added security of offshore reinsurance subject to higher premiums.

Introduction of a mandatory requirement for betting, casino, lottery and gaming tickets to display the withholding tax payable on potential winnings. Further this condition will be a requirement for holding a license whether operating online or through physical stores.

Our comment
Winnings from lotteries, betting and gaming are subject to withholding tax. The newly introduced mandatory requirement to display the withholding tax payable on potential winnings is an administrative measure aimed at increasing compliance.

Amend the definition of commodity royalty ("CR") so as to include payments made by a person resident in the republic to another person equally resident in Zambia. Further, amend the definition so as to remove or expand on the element of royalty financing.

Our comment
Witholding tax on royalty financing was introduced in the 2020 Income Tax Amendment Act (effective 1 January 2021). However, the application of WHT was limited to royalty financing payments between a resident and a non-resident. The proposed amendment seed extends the scope of this provision to a resident company

Pay As You Earn

The Minister has proposed an increase in the exemption threshold for Pay-As-You-Earn to K4,500 from K4,000 and subsequent adjustment of income tax bands.

The tax bands are now as follows:

Current Regime		Proposed Regime	
Income Band	Tax Rate	Income Band	Tax Rate
0 - K4,000 per month	0%	0 - K4,500 per month	0%
K4001 - K4,800 per month	25%	K4,501 - K4,800 per month	25%
K4,801 - K6,900 per month	30%	K4,801 - K6,900 per month	30%
Above K6,900	37.50%	Above K6,900	37.50%

Our comment
The increase in the exempt threshold is a measure intended to give relief to the low wage earners, basically increasing the net income of the employee. We have noted in the past that the PAYE thresholds have largely remained unchanged, resulting in the erosion of disposable income. The proposed changes will help in preserving the disposable income of individual taxpayers.

Tax Incentives

Introduce zero percent withholding tax for a period of 10 years on dividends declared on profits and remove corporate tax on profits made on exports by companies operating in the Multi Facility Economic Zone (MFEZ) or Industrial Park under the Zambia Development Agency Act No. 11 of 2006.

Our comment
The minister has proposed to increase the period for the zero percent tax incentive on dividends declared on profits and profits made on exports for Companies operating in the MFEZ registered under the Zambia Development Agency Act.

The minister has also proposed 100 percent tax exemption for 10 years, 50 percent reduction to the applicable rate in the 11th to 13th year only and 25 percent reduction to the applicable tax rate in the 14th and 15th year of operation.
Previously, the Government removed the reduced tax rates and introduced 100% deductibility of capital allowances in the first year as an incentive. The proposed measure should enhance Zambia's competitiveness and industrialization drive, in the face of the Africa Continental Free Trade Agreement (AfCFTA). We note however that tax incentives alone do not drive investment. Other factors that influence investment and need attention include efficient, equitable and predictable tax administration,

ease of doing business, the strength of governance institutions and transport infrastructure. Tax administrative challenges including VAT refunds, VAT Rule 18 export provisions that transfer the administrative burden of zero rating of exports onto the taxpayer and depend of documentation generated by other jurisdictions could still pose a significant challenge to investment.

Furthermore, in the era of the 4th Industrial revolution, which is driven by emerging technologies, the incentive regimes must focus not only on manufacturing but emerging technologies and innovation as well.

To ensure certainty by investors, there is also a need to restrict the power to revoke incentives to the Zambia Development Agency rather than the ZRA. The ZRA's role should be limited to administration of the incentive.

Reduce the threshold to US $50, 000 from US $500,000 for a Zambian citizen to qualify for incentives provided under the Zambia Development Agency Act No. 11 of 2006.

Our comment

Prior to amendment, the threshold for investors was US$ 500,000 for Zambian citizens to qualify for incentives provided under the ZDA Act. However, the minister has proposed to reduce the threshold to US$50,000. This reduction in the threshold will encourage local investment and enable Zambian citizens to benefit from fiscal incentives.

Property Transfer Tax

Amend Section 3 (2) of the Property Transfer Tax Act by deleting the words "the Commissioner or to" to clarify that the Commissioner General can delegate to anyone in the Authority and not in a specific Division.

Our comment

Prior to the proposed amendment, the section stated that the Commissioner General may specify, or delegate power conferred to him to any deputy commissioner or any officer in the department of taxes. The proposed amendment aims at providing clarity on whom the Commissioner General can delegate power to, specifying that any officer that the Commissioner General appoints will have the power to enforce provisions laid out in the Property Transfer Tax Act (PTT) as though that officer is the Commissioner General himself.

Amend Section 4 (1B) of the Property Transfer Tax Act to include the word "consecutive" which will read as follows.

"A transfer of shares referred under sub-section (1A), is not liable to tax if the total value of the transferred shares over a period of three consecutive years represents less than ten percent of the total value of shares in the company incorporated in the Republic."

Our comment

Prior to the proposed amendment, section 4 (1B) of the PTT Act provided that transfers of shares whose value is below 10 percent of the total value of shares in a company incorporated in Zambia be exempt from tax. An anti-avoidance provision to avoid splitting (i.e., so that transactions are below the threshold) was included to aggregate affected disposals by related parties over a period of three years. However, the tabulation of the three-year period was not clarified, potentially ensnaring transactions over lengthy non-consecutive years. This housekeeping measure clarifies the application the three-year period.

Amend Section 6 (1) (d) of the Property Transfer Tax Act to include the word "approved" before public benefit organization.

Our comment

Section (1)(d) of the Property Transfer Act provides that any Public Benefit Organisation ("PBOs") or trust listed as such under the Income Tax Act is exempt from tax. However, there is no guidance on whether these PBOs are required to be approved by a statutory Instrument (SI) or the Commissioner General. This proposed housekeeping measure aims to clarify that only approved PBOs as provided under the Income Tax Act, may be exempted from Property Transfer Tax. Furthermore, PBOs should ensure that they are approved either by the Minister of Finance through an SI or by the Commissioner General and are eligible for the exemption.

Proposed Change Insert Section 9 (1A) in the Property Transfer Tax Act to allow a proxy to file a return in situations where the taxpayer cannot be found.

Our comment

Currently, the Property Transfer Tax (PTT) Act only allows the transferor to remit a provisional return (for assessment) as prescribed by the Commissioner General in the case of a direct transfer of shares or the transfer of other forms of property subject to PTT.

The proposal allows a person other than the transferor of the property to render a provisional return on behalf of the transferor provided that person has been allowed to do so through a court order or has been appointed as a proxy for the registrar of court who has been authorised to render the provisional return. This is on condition that the transferor is deceased, is absent from the republic; or cannot be located despite all reasonable efforts to do so.

This provision should ease compliance especially for transferors that are not resident in the Republic.

However, taxpayers should note the requirement for a court order to validate the appointment of the proxy.

Value Added Tax

Zero rate selected agricultural equipment and accessories.

Our comment
As part of the continuing efforts to encourage economic diversity, particularly by scaling up agricultural productivity, the government has proposed to zero-rate selected agricultural equipment and accessories.

The selected agricultural equipment and accessories include, manure spreaders, balers, combine harvesters, commercial sprinkler irrigation systems, animal feed grinder mixer, pelleting machines, sprayer, trailers of a specific HS code and dryers for agricultural products of a specific HS code. Currently, these equipment and accessories are standard rated. However, by zero rating these equipment and accessories the government seeks to reduce the tax burden on acquiring agricultural equipment and accessories.

By zero-rating the agricultural equipment and accessories, the proposed measure may further serve as an additional investment incentive in the agricultural sector.

Zero-rate the value added tax on solar charge control units and solar streetlights

Our comment
The proposed zero-rating of solar charge control units and solar streetlights reflects the government's desire to encourage citizens to use alternative energy sources and reduce pressure on the national grid.

Standard rate the supply of property, non-life insurance as well as the supply of booklets and newspapers. Abolish the current applicable insurance premiums levy.

Our comment
In a quest to increase the VAT tax base the government have proposed to standard rate property, non-life insurance, booklets, and newspapers. Currently, these are exempt from value added tax. Further, the minister proposed to abolish the current 3% insurance premium levy that was introduced on 1 January 2016.

Proposal to change the tax collection point for value added tax on mobile phones from importation and point of sale to the point of registration by the Zambia Information and Communications Technology Authority.

Our comment

This proposal is meant to change the tax collection point from importation and point of sale to point of registration by Zambia Information and Communications Technology Authority (ZICTA).The proposed amendment seeks to increase tax compliance as well as enhance identification of mobile phones and security.

However, as we have noted in previous comments on similar proposals, conflation of regulatory and revenue collection roles may give rise to a conflict of interest and should only be considered as a last resort. This provision extends a core responsibility of the ZRA to strengthen compliance on importation to a third party whose role should be limited to regulation.

House Keeping measures

Amend Section 7A (1) to provide a clearer meaning of recording daily sales.

Our comment

In 2020, the VAT Act was amended to introduce a requirement to daily record sales. This amendment was aimed at enhancing tax compliance. However, the amendment did not provide clear guidance on the meaning of recording daily sales.

Therefore, the proposed measure seeks to provide clarity by reemphasizing the requirement on taxpayers to use fiscal devices on all sales. Taxpayers should ensure that they are compliant by installing and using fiscal devices in their day to day running of businesses to allow real-time collection of data by the ZRA.

Amend Paragraph 2 of the Zero-rating Order to remove the definition of "inclusive tour".

Our comment

Currently, the zero-rating order includes the definition for inclusive tour that was repealed in the 2020 VAT liability guide. The measure is intended to remove a redundant definition relating to a repealed provision under Group 1(g) of the VAT liability guide.

Amend Regulation 7 of the VAT (Electronic Fiscal Device) Regulations to allow a taxable supplier to only use accounting software integrated with the Tax Invoice Management System. The proposed wording is as follows:

The Commissioner-General may allow a taxable supplier to use accounting software to issue tax invoice if the accounting software is integrated with the tax invoice management system.

Our comment

The measure is intended to provide for the requirement for taxable suppliers using accounting software to have their accounting software integrated with the Tax Invoice Management system. Taxpayers should ensure that the accounting software is integrated with the invoice management system so that all transactions are correctly captured and accounted for accordingly. Taxpayers should also ensure that the accounting software is approved by the ZRA as required by the VAT Regulations.

Amend Section 7 (5) of the VAT Act to include a graduated penalty regime similar to what is in section 7A (3) of the same VAT Act.

Our comment

The measure aims to align the penalty regime in Section 7 (5) with Section 7A (3). Section 7A (3) currently includes a graduated penalty regime with a maximum penalty of ninety thousand penalty units (ZMW27,000) whilst Section 7(5) provides a higher single penalty of three hundred thousand penalty units (ZMW90,000) and imprisonment for a term not exceeding three years or both. It is not clear if the amendment will lead to the reduction of the penalty in Section 7(5) and the exclusion of imprisonment.

Amend Section 18 (3) (c) to clarify the documents in support of an import by replacing the word "or" with "and".

Our comment

The proposed wording is as follows:

In the case of imported goods, import bills of entry "and" such documentary evidence of the payment of tax as the Commissioner-General may, by administrative rule, prescribe.

The provision will potentially expand the documents required by the Commissioner-General on importation and may impose additional administrative burdens on importers.

Customs and Excise

Reduce customs duty on solar streetlights and solar charge control units from 15% and 25% respectively to 0%.

Our comment
The reduction of the import duty on solar powered streetlights and charge control units will encourage the use of alternative sources of energy thus promoting the Green Economy. This is in line with Government's agenda to fight climate change and encourage the use of clean energy sources.

Remove 5% customs duty on the importation of cattle breeding stock and suspend the 5% customs duty on grandparent and/ or parent stock of day-old chicks when imported by a breeding company for a period of 12 months effective 1 November 2021.

Our comment
The amendment should lead to a reduction in the cost of cattle and poultry farming. It should also help in making Zambian producers more competitive against foreign producers.

Remove 5% customs duty on filler masterbatch.

Our comment
Filler masterbatch is an ingredient used in the manufacture of plastic goods. The amendment seeks to encourage the local manufacture of plastic items and discourage importation of plastic related goods. As plastic is not bio-degradable and may be harmful to the environment, this provision seems to contradict the governments green agenda.

Reduce customs duty to 15% on the importation of tyres for lorries, busses, agricultural machinery and construction machinery from 40% or K5 per kilogram whichever is greater.

Our comment
The change introduced aligns the treatment of importation taxes on tyres. Previously, customs duty charged on the importation of such tyres was at the rate of 40% or K5 per kilogram whichever is greater. This measure seeks to harmonise the all-customs duty rates applicable to tyres used in various sectors and encourage the importation of tyres by more industries. Despite this being a positive change, the amendment may have an adverse effect on the environment as tyres are non-biodegradable. There is need to introduce further incentives such as the establishment of mechanisms to be used in the process of recycling of tyres to mitigate climate issues.

Extension of waiver on customs duty charged on safari game viewing vehicles, tourists' buses and coaches to 31 December 2023.

Our comment

In 2021, as a way to mitigate the impact of the COVID-19 pandemic on the tourism sector, the Government suspended the 15% customs duty rate applicable on the importation of safari game viewing vehicles, tourist buses and coaches. This change was aimed at cushioning the tourism sector as it was badly hit by the pandemic. The measure was only valid for a year, that is, 1 January 2021 to 31 December 2021. The proposed change has been extended to 31 December 2023 due to the continued effects of COVID-19 pandemic in the Zambian economy. This change will, however, only apply to accommodation establishments, convention centres and tourism enterprises.

Extension of customs duty relief on importation of refrigerated trucks and extend the customs duty relief to processors of milk and manufacturers of medicaments.

Our comment

In 2021, the Government suspended the import duty on refrigerated trucks from 15% in order to support the local cold chain industry and mitigate the challenges faced in the exportation of fresh produce. The measure assisted in strengthening the fresh produce supply chain process by eliminating the wastage of fresh produce while in transit. The extension provided is not bound by any time frame and will be revised as and when required.

Additionally, the customs relief on processors of milk and manufacturers of medicaments has been suspended from 5%. This change encourages the processing of milk on a larger scale, and may lead to processing of milk for exportation.

Remove 10% export duty on maize.

Our comment

The proposed amendment is a concession measure by the Government as a way of encouraging the exportation of Maize. Maize is Zambia's main cash crop as well as a dietary staple and is grown by both commercial and small-scale farmers. Maize farming has been negatively impacted by price regulation, export controls and the 10 percent export duty. This measure will encourage both small scale farmers and commercial farmers to increase their maize production and possibly offset any food security risks that may arise from increased importation.

Increase of customs duty from 15 percent to 25 percent on floor and wall tiles imported from outside COMESA and SADC regions.

Our comment

This measure is intended to promote the growth of the ceramic industry given the significant construction activity in the country.

Other measures

Increase the exemption of customs duty on which duty is not paid to the United States of America to $500 from $50 inclusive of freight and insurance, excluding goods consigned through parcel post or air freight.

Increase of customs duty to 25 percent from 5 percent and 15 percent on yarn made from acrylic fibre of HS codes 5511.10.00, 5509.31.00, 5509.32.00, 5509.11.00, 5509.12.00 and 5509.22.00 imported from outside the COMESA and SADC regions.

Introduce the following surtaxes;

- Surtax at a rate of 5 percent on imports of yarn made from acrylic fibre of specific HS codes
- Surtax at the rate of 5 percent on knitted or crocheted jerseys, pullovers, cardigans, waistcoats and similar articles
- Surtax at the rate of 10 percent on imported cement bags
- Surtax at the rate of 5 percent on imported floor and wall tiles
- Surtax at the rate of 20 percent on imported glass on selected HS codes
- Surtax on flexible intermediate bulk (FIB) containers to 20 percent from 5 percent
- Remove the 5 percent Surtax on importation of Bovine Semen

The minister has also proposed the following revenue raising measures:

- Introduce 5 percent excise duty on coal
- Increase the specific excise duty on opaque beer to 50 ngwee per liter (packaged) and to one Kwacha for (unpackaged) from 15 ngwee
- Increase specific excise duty on cigarettes from the current K302 per mille to K355 per mille
- Increase specific excise duty on unmanufactured tobacco, tobacco refuse, smoking tobacco whether or not containing tobacco substitutes, water pipe tobacco and cutrag to K355 from K240.

House Keeping Measures

Introduce a time limit of 30 days within which an objection to an assessment or any other objection can be lodged with the Commissioner General

Our comment

The amendment reemphasizes section 108 of the Income Tax Act which provides that within thirty days of the date of service of notice of assessment, the person assessed may make to the Commissioner-General a written statement of objection to the assessment setting out the grounds of objection, and the Commissioner General shall give that person written notice of his decision concerning that objection. The measure aims to ensure that assessments and disputes arising from objections are resolved on time. However, this will be hard to achieve as the time limits are applicable to the taxpayers and no time limits are applicable the ZRA.

Whilst taxpayers are expected to be more efficient in responding to assessments raised by the ZRA, is also important that time limits are set for the revenue authority as in some instances, audits take long to complete and taxpayers find that either institutional memory is lost or systems change, leading to difficulties in providing information.

Introduce an application form for the beneficiaries of the duty waiver under Regulation 87A.

Our comment

Differently abled people are required to register with the Zambia Agency For People with Disabilities (ZAPD) in order to enjoy the various incentives that the government has in place. This amendment further seeks to ensure that the incentives for differently abled people are not abused. The proposed application form will ensure that the information provided pertaining to the beneficiaries is correct, and that the provision Is not misused by persons that are ineligible.

Review the categories of goods under the Public Benefit Organisation (PBO) scheme for tax purposes.

Our comment

The proposal by the Minister to review the categories of goods under the PBO scheme is intended to strengthen the provisions for granting duty exemptions on importations by PBOs.

Introduce separate Harmonised System (HS) codes for Popcorn

Our comment

This measure is aimed at establishing a distinct HS code for Popcorn to differentiate it from similar products.

Provide for the Commissioner General to waive ASYCUDA processing fees that arise as a result of administrative omissions and/or errors that are not in any way attributed to a taxpayer.

Our comment

This proposal is intended to avoid penalising taxpayers for omissions and errors caused by the Revenue Authority. The taxpayers will have the onus to prove that the omissions and errors giving raise to ASYCUDA processing fees were caused by the Revenue Authority.

Align the First Schedule to the Customs and Excise Act (HS Codes) to the 2022 version of the World Customs Organisation (WCO) Harmonised Coding and Description System.

Our comment

WCO Harmonised Coding and Descriptions are recognised globally. Ensuring that the First Schedule to the Customs and Excise Acts is aligned to the World Customs Organisation is important, as it brings about uniformity when goods are imported or exported. The alignment is also important as Zambia increases its participation in international trade. Importers and exporters should familiarize themselves with the WCO HS codes to enable them to use the correct codes when importing or exporting goods.

Reduce the number of hours for goods that remain within customs premises after release from customs control without the payment of a storage fee, to eight (8) hours, from forty-eight (48) hours.

Increase Storage fees to K150 (500 fee units) from the current K30 (100 fee units) per day to be paid on goods that remain within customs premises after eight (8) hours of being released from customs control.

Our comment

The proposed changes are meant to reduce congestion at the port by providing disincentives to leaving goods within customs premises after the goods are released by customs.

Provide a five (5) day limit, prior to the arrival of goods, for which an application for Advance Tariff Ruling may be submitted

Our comment

The measure is intended to provide more time for the authority to review the Advance Tariff Rulings applicable prior to the arrival of goods. This will also improve on efficiency by ensuring that all the processes and decisions are made in good time before the products arrive.

Non-tax Revenue Measures

Proposal to revise upwards fees charged by the Road Transport and Safety Agency, Department of National Registration, Passport and Citizenship, Forestry Department and Seed Certification Control Institute, among others.

Our comment

Although the increased margins are not specified, the proposed change is expected to increase revenue for the affected government departments in accordance with the inflation rate.

The upwards revision of fees for the stated departments is expected to result in an increase in the cost of doing business, particularly for those involved in transport and logistics and forestry related industries.

Propose to revise downwards the immigration permit fees under the Non-Governmental and Non-Profit Organisation category.

Our comment

Non-Governmental and Non-Profit Organisation play a vital role in community development.

This proposal reduces the compliance costs as far as immigration is concerned for Non-Governmental and Non-Profit Organisation. This change will result in a reduction in the cost of doing business for Non- Governmental and Non- Profit Organisations whose role is to assist Government in the provision of services to the vulnerable.

Propose to reduce visa fees of all categories by 50 percent.

Our comment

The reduction of Visa fees by 50% for all categories has been proposed in order to make Zambia a more competitive tourist destination.

The tourism sector has to large extent been affected by COVID-19. During the first three months of 2020, Zambia experienced a drop of over 14,000 international visitors. This proposal is expected to reduce the cost of visiting Zambia for international tourists, and therefore increase the number of annual tourists, thereby providing a much-needed boost to the tourism industry.

Excise Duty

Provide a time limit of 30 days within which an objection pertaining to a manufacturer's license for goods subject to excise and all surtax can be lodged with the Tax Appeals Tribunal.

Our comment

This is another measure that is aimed at encouraging taxpayers to submit their objection on time (within 30 days) to ensure that matters resolved. The time limit of 30 days applies to taxpayers and not to the authorities (they can take as long as they want to respond).

The purpose of the proposed amendment is to update the legislation with current trends and tax administration best practices.

Reduce the license fee for excisable manufacturers to K4,500 from K9,000.

Our comment

The reduction of license fee for excisable manufacturers will provide relief to several manufacturers especially Start-ups and Small and Medium Enterprises.

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