

A young green seedling with two leaves is growing out of a tray of dark soil. The seedling is positioned to the right of a yellow frame that encloses the title text. The background is a blurred tray of similar seedlings.

# EY Zambia 2023 National Budget Analysis

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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# About EY Zambia

EY Zambia is an integrated member of EY Central Africa, a member firm of EY Global, a leader among the world's professional services organisations.

The firm is one of the longest-established auditing, advisory and tax firms in the region offering an unrivalled pool of specialists in business related services. Our grouping as part of the EY Global firm provides us with access to international resources and to new technologies, methodologies, and leading practices at a global level. EY started its Zambia operations in 1997.

EY is a thorough professional services organisation with its network gathering national offices all over the world, united by a single operating structure and a common culture of innovation and knowledge sharing. This unique "One-Firm" approach qualifies the people of EY to serve clients by bringing together

any of the more than 20 competencies which transcend geographic borders and organisational lines. EY's global presence and integration has been a critical success factor in delivering value to our clients as well as broadening their views by exposing them to global best practice as well as developments in their respective industries across the world.

## We define ourselves into four service lines:

- ▶ **Audit & Assurance**
- ▶ **Advisory Services**
  1. IT Risk Advisory Services
  2. Risk Advisory Services
- 3. Fraud Investigation and Dispute Services
- 4. Performance Improvement
- ▶ **Transaction Advisory Services**
- ▶ **Global Tax Advisory Services**



# EY Global

The world is changing so rapidly that traditional ways of doing business are no longer sufficient. Now, more than ever, businesses need to act with the best knowledge possible and move forward with confidence in order to compete effectively.

## A Global leader in professional services

EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 260,000 people are united by our shared values and unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Increasingly our clients and our people expect us to be more global in our outlook, more integrated in our thinking and more inclusive in our approach. EY has been proactive in responding to the globalisation of our clients by integrating our country practices across Europe, the Middle East, India and Africa. This bold move has brought together over 125,000 EY people in 97 countries generating revenues of \$13 billion. We are the first of the Big 4 firms to achieve a level of integration of this scale and scope and believe we have set a new standard in professional services by bringing a truly borderless approach to our clients.

EY currently has representation in most African countries. Our network throughout Africa ensures that communication is responsive to the needs of our clients, thereby stimulating trade and enhancing business relationships. We offer an invaluable “on the ground” service to investors, and can provide expert advice on local taxes, customs and systems, as well as introductions to influential local contacts.



## Who we are

We are people who demonstrate integrity, respect and teaming. People with energy, enthusiasm and courage to lead. People who build relationships based on doing the right thing.

## Quality as a constant

While change has become a given in today's world, at least one aspect of the way we serve clients remains constant: the fundamental of imbedding quality in every aspect of our business. To us, "quality" means getting the right information, making the right judgements, taking actions and maintaining the public trust.

## EY - Tax

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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# 2023 National Budget Overview

The National Budget Address for the fiscal year 1st January 2023 to 31st December 2023 was delivered to the National Assembly on Friday 30th September 2022 by the Honourable Dr. Situmbeko Musokotwane, MP, Minister of Finance and National Planning.

The proposed 2023 budget amounting to ZMW167.3 billion or 31.4% of GDP compared to 2022 budget of ZMW173 billion or 37.1% of GDP is themed “Stimulating Economic Growth for Improved Livelihoods”. At a glance the proposed 2023 budget seems to signal a contractionary fiscal stance by the Government although it is a continuation of the 2022 agenda of socio - economic transformation of the economy based on the 2022 to 2026 8th National Development Plan and the three-year

International Monetary Fund (IMF) Extended Credit Facility (ECF) arrangement for Zambia. The 2023 budget seems to be aimed at restoring macroeconomic stability, debt sustainability, creating fiscal space for much needed social spending in health, education for the poor, and fostering higher, more resilient, and more inclusive growth for the country.

The 2023 budget has been designed in the light of notable economic and social successes made in 2022 which include a stable exchange rate of the domestic currency; single-digit inflation; free education up to Grade 12; and recruitment of 30,496 teachers and over 11,000 frontline medical personnel. The country also secured a three-year arrangement with the IMF under the ECF amounting to US\$1.3 billion.

## In 2023, the national budget will be financed as follows:

ZMW111.6 billion  
(2022: ZMW98.86 bn)

Domestic revenue

ZMW15.58 billion  
(2022: ZMW24.46bn)

Domestic borrowing

ZMW1.7 billion  
(2022: ZMW1.82bn)

Foreign grants

ZMW38.40 billion  
(2022: ZMW47.85bn)

Foreign financing

# Performance of 2022 National Budget

The debut Government's 2022 Budget was themed "Growth, Jobs and Taking Development Closer to the People" and was aimed at restoring macroeconomic stability and growth, attaining debt and fiscal sustainability, and improving the livelihood of the Zambian people, especially the vulnerable.

Like the 2023 budget, the 2022 National Budget rested on four pillars outlined in the 8th National Development Plan and were first pronounced by the Republican President in his inaugural address to the First Session of the Thirteenth National Assembly made on 10th September 2021 and these are:

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

Through the 2022 budget, the Government provided incentives to support higher output and production of a wider range of products which were aimed at creating employment opportunities for the people and in turn would improve their livelihoods. Under the same budget, the Government also increased support to the social sectors and social protection programs. The aim was to take resources closer to the people in order to improve service delivery and involve citizens in decision - making.

The projected total budget for the year was ZMW173.0 billion (37.1% of GDP) of which 57% of the amount was to be financed from domestic revenues while 27% was to be financed through foreign financing.

During the period under review, Government's six (6) macroeconomic objectives aimed at addressing the challenges of low growth, unsustainable debt levels, constrained fiscal space, rising costs of living and successive strenuous COVID - 19 waves that contributed to economic downfall and created uncertainty to the country's growth outlook were:

- i. Attain a real GDP growth rate of at least 3.5%;
- ii. Reduce inflation to single digits by the end of 2022 and within the target band of 6-8% by mid-2023;
- iii. Limit international reserves to at least 3 months of import cover;
- iv. Increase domestic revenue to not less than 21.0% of GDP;
- v. Reduce the fiscal deficit to no more than 6.7% of GDP; and
- vi. Limit domestic borrowing to no more than 5.2% of GDP.

The Zambian economy has continued to grow for the third - year running albeit at a slower pace and is estimated to grow by 3.0%, slightly lower than the 2022 budget projected growth of 3.5%, and slower than the growth rate of 4.6% recorded in 2021. Preliminary estimates by the Zambia Statistics Agency show that GDP grew by 2.2 % and by 3.5% in the first and second quarter of 2022, respectively.

The low inflation has been on account of the appreciation of the Kwacha and the improved supply of food items.

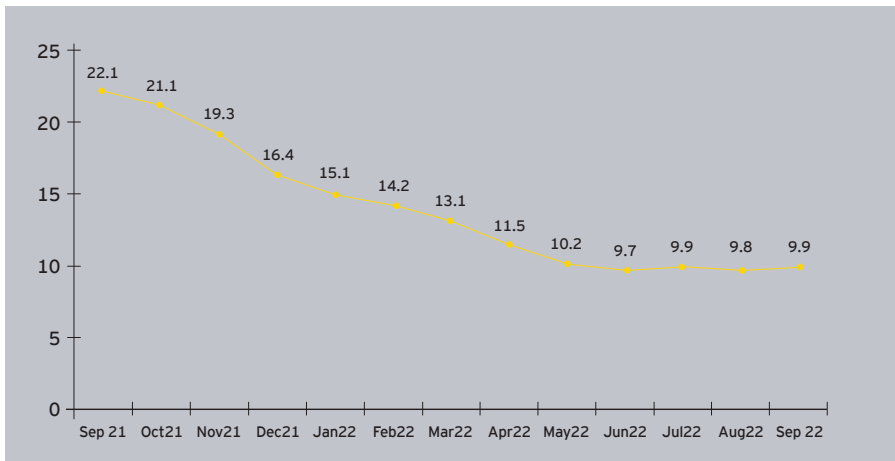
The slowdown in growth in 2022 is mainly attributed to lower output in agriculture due to the late onset of rain, drought, and flash floods in some parts of the country. The construction sector also recorded a weak performance.

Annual overall Inflation has substantially declined from 22.1% a year ago to 9.9% in September 2022 as shown in Figure 1. However, the inflation rate is still above the target range of 6-8% envisioned in the 2021 national budget. The low inflation has been on account of the appreciation of the Kwacha and the improved supply of food items.

The 2022 National Budget had envisioned limiting international reserves to at least 3 months of import cover by the end of 2022. However, as at end-August 2022, gross international reserves were US \$3.0 billion, representing 3.5 months of import cover. This is above the target of at least 3 months of import cover for 2022 and thus is poised to close the year above the target limit of at least 3 months of import cover. According to the Bank of Zambia, the primary sources of inflows were mining tax payments and receipts of project funds.

The exchange rate of the Kwacha against major currencies has been relatively stable over the period of the 2022 budget. On a year- to - date basis, the Kwacha has appreciated by 5.2% to ZMW15.79 per US dollar. The gain has largely been on account of an improved supply of foreign exchange mainly owing to increased inflows from the mining sector and greater confidence in the economy, particularly commitment to reforms by the government and following the IMF Executive Board's approval of the country's application for an IMF ECF program.

**Figure 1: Annual Inflation Rate, Sept 2021 - Sept 2022 (%)**



Source: ZamStats, 2022 Note: 2009 = 100



In 2022, the overall budget performance is set to be favorable as revenues have so far exceeded the target while expenditures have been contained within the target. Monthly budgetary releases have also been in accordance with the requirements of Ministries, Provinces and Agencies.

For the period January to August 2022, total revenues and grants amounted to ZMW72.1 billion and were 3.5% above the budget target of ZMW69.7 billion. Tax revenue stood at ZMW54.4 billion, non-tax revenue at ZMW13.5 billion, and grants were at ZMW4.2 billion. The positive performance was mainly attributed to increased collections in corporate tax and Pay as You Earn. By the end of the year, total revenues and grants are expected to be ZMW101.04 billion against the budget target of ZMW100.7 billion.

On the other hand, the total expenditure for the period January to August 2022 amounted to ZMW94.3 billion against the target of ZMW110.2 billion. Of the total expenditure, ZMW85.1 billion was financed from domestic resources while ZMW9.2 billion was foreign financed. Notable expenses were the 2022 Census of Population and Housing, Constituency Development Fund, and dismantling of arrears. Others were payment of retirement benefits and Government contributions under the Public Service Pensions Fund, and the Local Authorities Superannuation Fund.

The 2023 year - end deficit is now projected to be higher at 9.8% of GDP against the 2022 national budget target of 6.7% of GDP.

Regarding the country's debt position in 2022, the stock of public external debt amounted to US \$14.87 billion as at end-June 2022. Of this amount, Central Government external debt was US

\$13.25 billion while guaranteed and non-guaranteed external debt for State Owned Enterprises was US \$1.50 billion and US \$113.69 million, respectively.

Central Government external debt increased by 1.6% to US \$13.25 billion as at end-June 2022 from US \$13.04 billion as at end-December 2021. This was on account of disbursements mainly from multilateral creditors. The stock of Central Government external debt includes US \$1.8 billion in principal arrears and US \$868.4 million in interest arrears arising from the ongoing debt service standstill.

In addition, the stock of domestic debt, that is, Treasury bills and Government bonds, increased by 5.3% to ZMW203.9 billion as at end-August 2022 from ZMW192.9 billion as at end-December 2021.

From the review of the performance of the economy in 2022, it is evident that the Zambian economy has stabilized. Progress has been made in achieving some of the socio - economic targets made for the fiscal year as shown by a stable exchange rate of the domestic currency against major convertible currencies and subdued inflationary pressures. Progress has also been made in resolving the country's debt crisis.

# Are uncharted waters an obstacle or an opportunity?

As storm clouds gather, how you plot the course for calmer waters is essential. The EY Enterprise Resilience Framework can help you navigate the critical questions for now, next and beyond.

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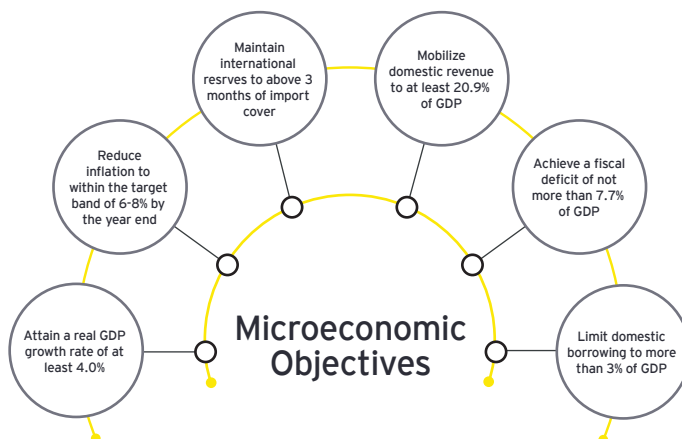
# 2023 National Budget

The 2023 national budget has been prepared during a global slow down mainly on account of the supply-side disruptions caused by the continued Russia - Ukraine conflict, the partial lockdown in China related to the COVID - 19 and tighter financial conditions in advanced economies.

In 2022, the global economy is, therefore, poised to grow by 3.2% down from the 6.1% growth recorded in 2021. In Sub Sahara Africa, growth is expected to be at 4.0% in 2023 up from 3.8% in 2022 mainly driven by elevated fossil fuel and metal prices for some commodity-exporting countries. On the local front, the late onset of rains, drought, and flash floods in some parts of the country coupled with weak performance in the construction sector will slow down the domestic economic growth to 3.0% in 2022.

The economic outlook for 2023 and the medium term, whilst positive will continue to be uncertain in view of the challenges of slow global growth, supply - side disruptions on account of the conflict in Ukraine, the post COVID - 19 pandemic challenges and the looming tighter financial conditions in advanced economies.

To consolidate and build on the achievements made in 2022 on the local front, the macroeconomic objectives for 2023 will, therefore, aim at stimulating growth, create jobs and improve the livelihoods of the Zambian people. In 2023, the government plans to pursue the following objectives and hereunder is our commentary:





► **Attain a real GDP growth rate of at least 4.0% (2022: 3.5%)**

**Commentary:** The attainment of the objective which is higher than the target for 2022 (3.5%) is feasible particularly because of the renewed and high private sector confidence in the economy coupled with the recently approved IMF ECF program for Zambia which are both expected to lead to high private investment outlays in the economy. The IMF program also opens a pathway to resolve the protracted foreign debt restructuring. However, this is conditional on how tight the global financial conditions are going to be. On the local front, the early distribution of farmer inputs under the Farmer Input Supply Program (FISP), and the rainfall patterns and weather conditions for the 2022/2023 season will also contribute to the attainment of the objective of achieving a real GDP growth rate of 4.0% in 2023.

► **Reduce inflation to within the target band of 6 - 8% by the end of the year**

**Commentary:** In 2022, the growth in consumer prices, as measured by the inflation rate, has slowed to single digits. For September 2022, inflation was recorded at 9.9% from 22.1% in September last year. In 2023, the target is expected to be attained.

Our expectation is that overall annual inflation will in 2023 be above the lower bound of 6 - 8 % and will in the medium-term hover within the bound target. The Bank of Zambia is expected to continue to play its supportive role of implementing an appropriate monetary policy stance. The Central government on its part has signaled a contractionary fiscal stance which is expected to support the single-digit inflation objective amidst its socio-economic agenda of improving the livelihoods of its people.

► **Maintain international reserves to at least 3 months of import cover (2022: 3 Months)**

**Commentary:** The objective is attainable as at end-August 2022, gross international reserves were US \$3.0 billion, representing 3.5 months of import cover. This is above the target of at least 3 months of import cover for 2022.

The objective is likely to be met in 2023 too particularly that the country is on an IMF ECF supported program amounting to US\$1.3billion.

► **Mobilize domestic revenue to at least 20.9% of GDP (2022: 21.0%)**

**Commentary:** In 2022, total revenues and grants are expected to be ZMW101.04 billion against the budget target of ZMW100.7 billion. Whilst domestic revenue collections have been impressive this year mainly on account of increased collections in corporate tax and Pay as You Earn, the major driver of the above is the increased inflows of grants from the cooperating partners which as at end of August 2022 stood at ZMW4.2 billion way above the annual target of ZMW1.2billion.

► Mobilize domestic revenue to at least 20.9% of GDP (2022: 21.0%)

In 2023, we expect to see continued positive performance in domestic revenue collections as the newly employed public workers of at least 41,000 are all put on the payroll and contribute to the Pay as You Earn. This includes the yet to be employed as envisioned by the 2023 National Budget. This will also be enhanced as the continued implementation of the new measures announced in both the 2022 and the 2023 budgets: such as sealing of revenue leakages for most tax measures and innovative revenue collection measures such as the addition of 100 more public services to the Government Service Bus and Payment Gateway take effect.

We, however, expect lower than targeted domestic revenue collections in 2023 on account of the continued over-hung effects of the COVID - 19 pandemic and subdued global business conditions on account of the tighter financial conditions in advanced economies.

► Achieve a fiscal deficit of not more than 7.7 % of GDP (2022: 6.7%)

**Commentary:** In 2022, the target for budget deficit was at 6.7% of GDP and projections are that the year-end deficit is going to be higher at 9.8% of GDP. The government is expected to continue financing its social protection agenda in health, education, and agriculture and, therefore the 2023 7.7% fiscal deficit target is unlikely to be met.

► Limit domestic borrowing to not more than 3.0% of GDP (2022: 5.2%)

**Commentary:** This objective is attainable as the country is now attractive for foreign inflows following the approval of the IMF supported ECF program and cooperation from other cooperating bilateral and multilateral partners. As of August 2022, the country received grants from cooperating partners amounting to ZMW4.2 billion against a target of ZMW1.2 billion. It is, however, important to note that domestic borrowing increased in 2022 and increased by 5.3% as at end of August 2022.



## 2023 National Budget Sector Policies

To achieve the macroeconomic objectives outlined in the preceding section, the government has proposed several sector specific policies prescribed according to the strategic development areas of the Eighth National Development Plan, namely: Economic Transformation and Job Creation; Human and Social Development; Environmental Sustainability; and Good Governance Environment.

Economic Sector	Sector Policies
<b>Agriculture, Fisheries and Livestock</b>	<ul style="list-style-type: none"> <li>▶ In 2023, Government will spend ZMW11.2 billion on various interventions in the agriculture, fisheries, and livestock sub-sectors in line with the Comprehensive Agriculture Support Program. The Program will provide farming inputs, enhance extension services, improve market access, financing to farmers and develop irrigation systems.</li> <li>▶ In particular, in 2023:               <ul style="list-style-type: none"> <li>▶ Government proposes to spend ZMW9.1 billion for farming inputs under FISP, ZMW789.5 million for extension services including the procurement of motor bikes, extension kits, electronic tablets, and rehabilitation of camp houses across the country.</li> <li>▶ ZMW426.6 million will be spent on farm block development and irrigation to reduce dependence on rain-fed agriculture and support agricultural activities all year round.</li> <li>▶ Further, ZMW52.7 million will be spent on the recruitment of at least 500 extension officers in the livestock, fisheries, and agriculture sub-sectors.</li> <li>▶ An additional ZMW274.4 million will be spent on animal disease control. This will facilitate the procurement of animal vaccines as well as the construction of an animal vaccine plant at Balmoral in Chilanga District.</li> </ul> </li> </ul>



Economic Sector	Sector Policies
<b>Agriculture, Fisheries and Livestock</b>	<ul style="list-style-type: none"> <li>▶ Under irrigation development, Government will construct a total of forty dams across the country over the medium term.</li> <li>▶ In 2023, sixteen dams will be constructed.</li> <li>▶ To actualize the Chiansi Irrigation Scheme in Kafue District, Government has secured financing of US \$10 million from the African Development Bank (AfDB) to cover 600 hectares in-field irrigation by smallholder farmers.</li> <li>▶ In advancing the revival of farm block development, Government has secured US \$300 million from the World Bank for the development of farm blocks such as Nansanga in Central Province, Luswishi in Copperbelt Province and Luena in Luapula Province.</li> <li>▶ In the livestock subsector, Government will enhance surveillance, prevention, and control. Specific interventions will include the construction of bio-security infrastructure on trunk roads and completion of laboratories.</li> <li>▶ Government will develop a robust animal identification and traceability system to reduce the levels of stock theft. It will also enhance the country's potential to export as it will meet the international standards that require identification and traceability of livestock products from "farm to fork".</li> <li>▶ To improve the policy and regulatory framework, Government will formulate the National Animal Health and National Aquaculture and Fisheries policies. Government will also review and amend the Animal Health Act No. 27 of 2010 and Animal Identification Act No. 28 of 2010. Further, to provide an enabling environment and promote livestock production and productivity, Government will develop the Livestock Development Bill.</li> <li>▶ Government will also reduce the cost of doing business by automating applications and issuance of licenses, permits, certificates and other authorisations through the electronic single window.</li> <li>▶ Under Value Added Tax in 2023, Government will Zero rate the supply of milk cans and milking machines to encourage the growth of the dairy sub-sector and promote utilisation of appropriate milk handling equipment.</li> <li>▶ To promote productivity in the sector, customs duty will be removed on: <ul style="list-style-type: none"> <li>▶ Biological control agents used in agriculture;</li> <li>▶ Crop growing media (peat moss) used in the production of vegetable seedlings; and</li> <li>▶ Selected tree crop seedlings.</li> </ul> </li> <li>▶ Customs duty will be removed from 2023 for a period of 3 years on the following: <ul style="list-style-type: none"> <li>▶ Greenhouse plastics used in agriculture; and</li> <li>▶ Selected machinery, equipment and articles used in aquaculture.</li> </ul> </li> </ul>

Economic Sector	Sector Policies
Manufacturing	<ul style="list-style-type: none"> <li>▶ Government will continue to promote Multi-Facility Economic Zones (MFEZs) as a way of expanding the country's industrial and manufacturing base.</li> <li>▶ In 2023 government facilitated the establishment of a multi-facility economic zone in Kalumbila to promote mining and non-mining linked manufacturing for both the Zambian and the Congolese markets.</li> <li>▶ To attract investment into corn starch processing in MFEZs, government will introduce income tax concessions for 15 years on income generated from local sales of corn starch by agro-processing businesses operating in Multi-Facility Economic Zones, Industrial Parks or rural area as follows: <ul style="list-style-type: none"> <li>a. 0% corporate income tax for charge years 2023 to 2033;</li> <li>b. 50% relief on corporate income tax for charge years 2034 to 2036;</li> <li>c. 25% relief on corporate income tax for charge years 2037 to 2038; and</li> <li>d. 0% withholding tax on dividends declared on profits for charge years 2023 to 2033.</li> </ul> </li> <li>▶ To continue promoting out-grower schemes, foster forward and backward linkages, value addition and job creation, government will suspend excise duty on locally produced clear beer from cassava to 5% from 10%.</li> <li>▶ In addition, government will suspend excise duty on locally produced clear beer made from malt to 20% from 40%.</li> <li>▶ These measures will apply to production levels over and above a specified threshold for a period of 3 years and will come into effect in the last quarter of 2023.</li> <li>▶ Further, government will reduce income tax rate for the lapidary and jewelry facilities in the gemstone industry to 25 % from 30% to promote value addition and attract more investment.</li> <li>▶ Government will extend the local content allowance at the rate of 2%, for income tax purposes to encourage value addition to tomatoes. This is in addition to mango, pineapple, and cassava.</li> <li>▶ Government will introduce: a surtax at the rate of 5% on imported: <ul style="list-style-type: none"> <li>▸ PVC pipes and HDPE pipes; and</li> <li>▸ coal and increase surtax on imported floor and wall tiles to 20% from 5% to support local production.</li> </ul> </li> </ul>

Economic Sector	Sector Policies
Small and Medium Enterprise Development	<ul style="list-style-type: none"> <li>▶ To ensure that SMEs access affordable finance from financial services providers, Government will continue to empower SMEs through the Constituency Development Fund and Citizens Economic Empowerment Commission.</li> </ul>

Economic Sector	Sector Policies
	<ul style="list-style-type: none"> <li>▶ In 2023, Government will spend ZMW397.4 million on citizen economic empowerment programs.</li> <li>▶ In addition, the Citizens Economic Empowerment Commission has developed seven empowerment products valued at ZMW365 million targeting citizens, SMEs and cooperatives.</li> <li>▶ To facilitate access to affordable loans by SMEs from financial institutions, Government has increased budgetary allocation to the Zambia Credit Guarantee Scheme in 2023 to ZMW150 million.</li> <li>▶ The Bank of Zambia is also collaborating with stakeholders to provide credit guarantee for SMEs. The scheme will commence in 2023 on a pilot basis.</li> <li>▶ Further, Cooperating Partners have provided a US\$20 million Loan Guarantee Scheme for SMEs through the financial sector.</li> <li>▶ In 2023, Government will reduce the rate of withholding tax to 0% from 15% on interest earned by individuals from loans advanced by members under the savings groups such as co-operatives and village banking. The measure is meant to stimulate the growth of SMEs by enabling them to have access to affordable capital.</li> </ul>

Economic Sector	Sector Policies
Tourism	<ul style="list-style-type: none"> <li>▶ To stimulate growth in the sector, Government will continue to bid for hosting of meetings, international conferences, and events.</li> <li>▶ In 2023, Zambia will host the 45th Annual Meeting of the Association of African Central Banks.</li> <li>▶ To sustain the current jobs and create new ones in the sector, Government will invest in infrastructure in the Kasaba Bay, Liuwa National Park, and other tourism sites to unlock opportunities for investment.</li> <li>▶ To this end, Government is in the process of securing US\$100 million from the World Bank for this purpose.</li> <li>▶ To increase efficiency in processing applications, Government has introduced 26 services for the tourism sector on the Government Service Bus such as Bird Hunting Licence, Hotel Manager Practising Certificate, Casino Licence and Professional Hunter's Licence.</li> <li>▶ Government will also streamline the legal framework by reviewing the Zambia Wildlife Act, Tourism and Hospitality Act and the National Heritage and Conservation Commission Act. The review will address the challenges of cumbersome regulatory frameworks and uncoordinated procedures among regulatory agencies.</li> <li>▶ As a pilot, Government is implementing a tourism single license system in Livingstone.</li> <li>▶ Government will in 2023 continue to promote tourism development by providing incentives to attract more investment into the sector.</li> </ul>

Economic Sector	Sector Policies
Tourism	<ul style="list-style-type: none"> <li>▶ In 2023 in particular, the following incentives will be provided:               <ol style="list-style-type: none"> <li>i. Suspend customs duty on imports of selected fixtures and fittings, capital equipment, machinery, and safari game viewing vehicles. This incentive will only apply on items that are not locally produced. These measures will be in effect for a period of three years, up to 31st December 2025;</li> <li>ii. Reduce presumptive tax to 15% from 25% on land - based (brick and mortar) betting companies;</li> <li>iii. Reduce withholding tax on winnings from gaming and betting to 15% from 20%. These measures are aimed at improving compliance for the industry and will be for the charge years 2023 and 2024;</li> <li>iv. Exempt from VAT, gaming, betting and lotteries to simplify the taxation of this industry and to align with international good practice; and</li> <li>v. Exempt from VAT, game animals imported as breeding stock to encourage purchasing of breeding stock.</li> </ol> </li> <li>▶ Government has waived visa requirements for tourists from the United Kingdom, United States of America, Canada, Norway, Australia, China, Japan, South Korea, the Gulf States and the European Union with effect from 1st October 2022.</li> </ul>

Economic Sector	Sector Policies
Mining	<ul style="list-style-type: none"> <li>▶ Government will facilitate increase in mineral production to 3 million metric tonnes of copper in the sector through the following measures:               <ol style="list-style-type: none"> <li>a. Policy stability and tax consistency for the sector; and</li> <li>b. Urgently resolve the challenges at Konkola and Mopani Copper Mines.</li> </ol> </li> <li>▶ To support the sector, Government will restructure the mineral royalty regime with respect to copper. The tax will now apply on the incremental value in each adjusted price band as opposed to the aggregate value when the price crosses the respective price threshold.</li> <li>▶ Further Government will reduce the lowest marginal rate to 4.0% from 5.5%.</li> <li>▶ To attract exploration in the sector as part of the effort towards the 3 million metric tonnes production target, Government will reduce property transfer tax to 7.5% from 10% on mining rights held by exploration companies to encourage mining exploration.</li> <li>▶ Other measures include enhancing the regulatory oversight in the sector. Government will, thus, establish a mining regulatory institution.</li> <li>▶ Further, Government has enhanced reporting requirements of production, costs and mineral content.</li> </ul>



Economic Sector	Sector Policies
	<ul style="list-style-type: none"> <li>▶ Given the importance of the mining sector to the economy, Government will enhance its strategic involvement by enhancing its participation through the acquisition of golden shares.</li> <li>▶ To promote artisanal and small - scale mining, Government will implement measures to formalize their operations and support them with the necessary equipment and training to increase production. In particular, the following measures will be introduced: <ul style="list-style-type: none"> <li>i. Replace the current corporate income tax regime with a pre-sumptive tax for artisanal and small-scale mining;</li> <li>ii. The presumptive tax will be based on the gross turnover less mineral royalty paid at the applicable turnover tax rate; and</li> <li>iii. Further, Government will empower Zambians with mining licenses, create offtake market opportunities and streamline the taxation system.</li> </ul> </li> <li>▶ Government will also license buyers of gold and other precious minerals so that the trade is formalized.</li> </ul>

Economic Sector	Sector Policies
Energy	<ul style="list-style-type: none"> <li>▶ Government will continue to undertake reforms in the sector to make it more viable and supportive to the economic transformation agenda.</li> <li>▶ To enhance efficiency in the fuel supply chain, the Government has, therefore, withdrawn from the importation and supply of petroleum products. This business will now be undertaken by the private sector.</li> <li>▶ The role of Government in the subsector will now be limited to that of being a regulator and ensuring cost reflective pricing. In addition, Government will ensure the maintenance of strategic reserves.</li> <li>▶ To improve efficiency in the petroleum sub-sector, Government is in the process of converting TAZAMA Pipeline from a petroleum feedstock carrier to a carrier of finished products, particularly diesel. This will reduce the cost of transporting diesel in the country.</li> <li>▶ In this regard, INDENI Refinery will no longer process feedstock but will play other roles in the petroleum supply chain.</li> <li>▶ To facilitate export of power to the East African region, Government is in the process of securing financing to complete the remaining in-country circuits for the Zambia-Tanzania- Kenya interconnector.</li> <li>▶ To provide access to electricity to all Zambians, Government has continued implementing the Rural Electrification Master Plan which targets to electrify 1,217 rural growth centers by 2030.</li> </ul>

Economic Sector	Sector Policies
Energy	<ul style="list-style-type: none"> <li>▶ In 2023, Government will double the allocation to the Rural Electrification Program to ZMW744.0 million to accelerate the electrification of more rural growth centers.</li> <li>▶ To make the use of liquefied petroleum gas affordable to safeguard the environment and diversify the energy mix, Government will remove 15% customs duty on gas cylinders.</li> <li>▶ Government has made the following changes to ensure cost-reflective prices in petroleum products and will result in the elimination of all fuel subsidies.</li> <li>▶ Standard rate the supply of petrol and diesel effective 30 September 2022; and</li> <li>▶ Reinstate excise duty on petrol and diesel effective 30 September 2022.</li> <li>▶ To rationalize the zero-rated supplies for value added tax purposes, Government will standard rate selected energy saving appliances and equipment.</li> </ul>

Economic Sector	Sector Policies
Transport and Logistics	<ul style="list-style-type: none"> <li>▶ To overcome the limitations imposed by scarce financial resources, roads with good traffic volumes will be undertaken using the Public Private Partnership mode.</li> <li>▶ In other words, the private sector will fund the roads and get their money back through toll fees. The roads include Lusaka - Ndola dual carriageway, Chingola - Solwezi, Ndola - Mufulira, Chingola -Kasumbalesa and the Lumwana - Kambimba roads.</li> <li>▶ To address the infrastructure deficit while relieving pressure on the Treasury, and incentivizing the private sector to attract Public - Private Partnership infrastructure investment, Government has provided the following tax incentives: <ul style="list-style-type: none"> <li>a. The tax payable by a Special Purpose Vehicle under the Public- Private Partnership shall be reduced by 20% for the first five (5) years that the project makes a profit;</li> <li>b. Allow a Special Purpose Vehicle to claim wear and tear on a straight - line basis at an accelerated rate, up - to 100%. This is in respect of any implement, plant and machinery acquired and used by the project for the purposes of that project;</li> <li>c. Remove customs duty and exempt from Value Added Tax, at importation; plant, machinery and equipment acquired for use in a project; and</li> <li>d. Allow a Special Purpose Vehicle to claim input Value Added Tax, where applicable, before the commencement of commercial operations.</li> </ul> </li> <li>▶ Further, Government will maintain, rehabilitate and upgrade critical economic roads. A budgetary provision amounting to ZMW4.9 billion has been made in the 2023 budget to cater for this purpose.</li> </ul>

Economic Sector	Sector Policies
<b>Transport and Logistics</b>	<ul style="list-style-type: none"> <li>▶ Government will also rehabilitate and maintain rural roads across the country to improve access to communities using the Zambia National Service that will be re- equipped. A budgetary allocation of ZMW250 million has been made in the 2023 budget for this exercise.</li> <li>▶ To improve efficiency and reduce time spent at the border, Government will construct and upgrade access to infrastructure at key border posts such as Sakania, Chalwe, Mokambo, Kambimba, Kipushi, Katima - Mulilo, Mpulungu, Chanida, Mwami, and Nakonde. <ul style="list-style-type: none"> <li>a. A budgetary allocation has been made in the 2023 budget amounting to ZMW150 million for this purpose.</li> </ul> </li> <li>▶ Government will expedite the establishment of the Kazungula Bridge Authority in collaboration with the Government of Botswana. The Authority will manage the bridge and associated infrastructure to foster regional trade and operationalize the 24-hour working schedule at the border.</li> <li>▶ To enhance transport by air, Government will commence the upgrading of aerodromes to promote tourism and trade in the country. <ul style="list-style-type: none"> <li>a. In 2023, Government will spend ZMW355 million on this activity.</li> </ul> </li> </ul>

Economic Sector	Sector Policies
<b>Social Protection</b>	<ul style="list-style-type: none"> <li>▶ Government will increase the number of beneficiaries under the Social Cash Transfer from 1,021,000 at the end of 2022 to 1,374,500 in 2023.</li> <li>▶ Government will continue providing education grants for girls in social cash transfer beneficiary households under the Keeping Girls in School Initiative.</li> <li>▶ Further, Government will continue with the Food Security Pack Program and the Public Welfare Assistance Scheme</li> <li>▶ To support the expenditure, Government will increase the allocation to Social Cash Transfer Program by 19.8% to ZMW3.7 billion from ZMW3.1 billion this year.</li> <li>▶ Government has further allocated ZMW1.2 billion for the Food Security Pack to support the vulnerable but viable farmers and ZMW133.5 million towards the Keeping Girls in School Program in 2023.</li> <li>▶ To remain current with pension payments under the Public Service Pensions Fund Government has allocated ZMW2.4 billion for payment of retirees in 2023 while K300.0 million is for retirement benefits under the Local Authorities Superannuation Fund.</li> <li>▶ In 2023, Government will also clear the backlog of arrears under the Local Authorities Superannuation Fund up to the end of December 2021</li> <li>▶ Government intends to continue meeting pension obligations as they fall due going forward.</li> </ul>

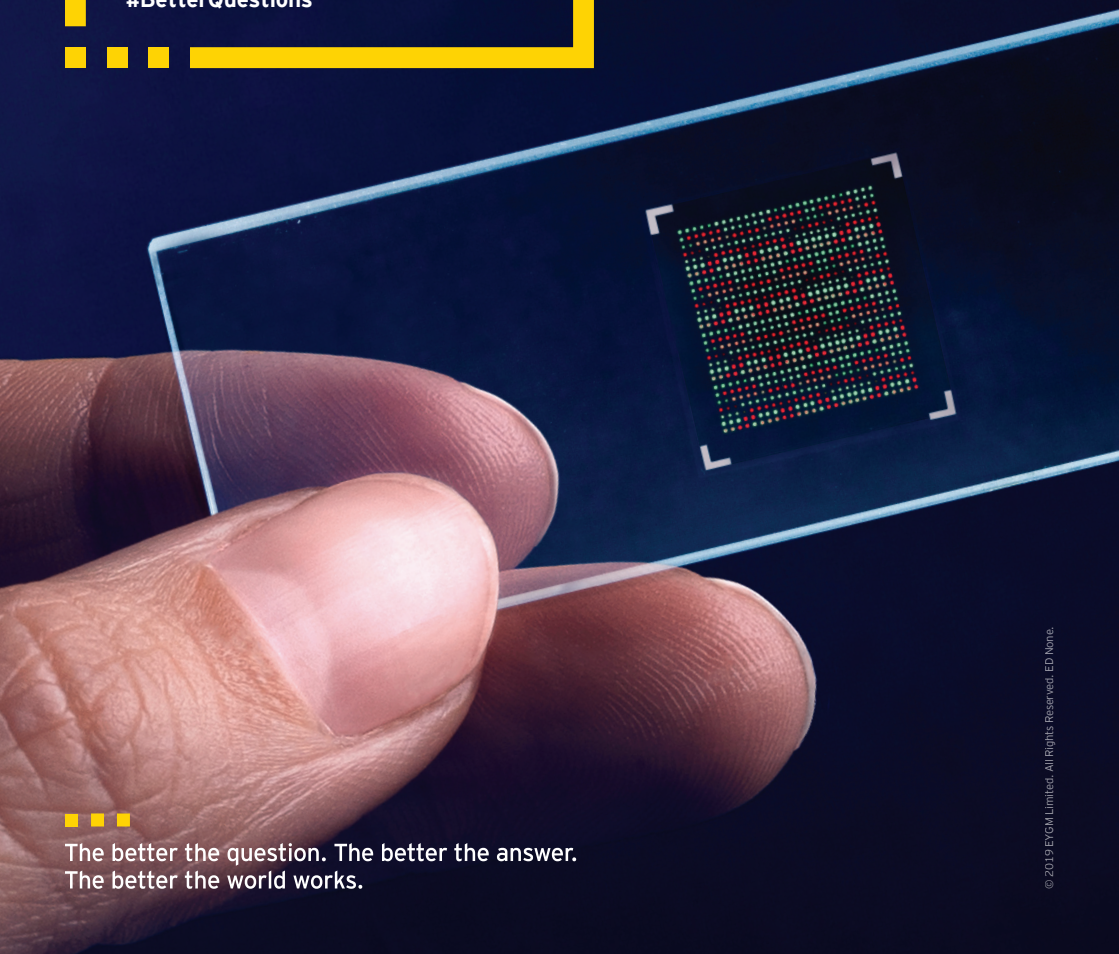
Economic Sector	Sector Policies
<b>Education and Skills Development</b>	<ul style="list-style-type: none"> <li>▶ In 2023, Government will continue to implement measures to improve the quality of education.</li> <li>▶ To this end, an additional 4,500 teachers will be recruited in 2023. Priority for the deployment of these teachers will be given to rural areas which are more deprived.</li> <li>▶ Further, Government will upgrade teachers who are currently serving in positions that are lower than their qualifications, including those who have been acting in higher positions for a long time without confirmation.</li> <li>▶ To increase access to education, Government will next year complete the construction of 56 Early Childhood Education Centres.</li> <li>▶ In addition, Government will embark on completing uncompleted 115 secondary schools in 2023.</li> <li>▶ Further, Government will commence the construction of 120 new secondary schools with the support of the World Bank in 2023.</li> <li>▶ With regard to tertiary education, Government will establish polytechnics to increase access to skills training for the youth. Government will in 2023 commission Lundazi, Nsumbu and Mporokoso Trades Training Institutes.</li> <li>▶ In 2023, Government will re-introduce meal allowances to students in public universities who are on the loan scheme in order to improve their welfare.</li> </ul>

Economic Sector	Sector Policies
<b>Health</b>	<ul style="list-style-type: none"> <li>▶ Government will continue to improve the provision of quality healthcare services through the recruitment of health personnel, infrastructure development and provision of drugs and medical supplies.</li> <li>▶ Following the recruitment of more than 11,000 health personnel in 2022, Government will in 2023 recruit an additional 3,000 personnel.</li> <li>▶ To ensure a resilient healthcare system and attain universal health coverage, Government has increased allocations for the purchase of drugs and medical supplies in 2023. This will result in improved availability of essential medicines and medical supplies.</li> <li>▶ To improve access to healthcare facilities, Government will complete the construction of a specialized hospital in Lusaka for women and children.</li> <li>▶ In addition, 36 district hospitals, 16 mini hospitals and 83 health posts will be completed across the country.</li> <li>▶ Government will also commence the construction of the second phase of mini hospitals in 2023.</li> </ul>

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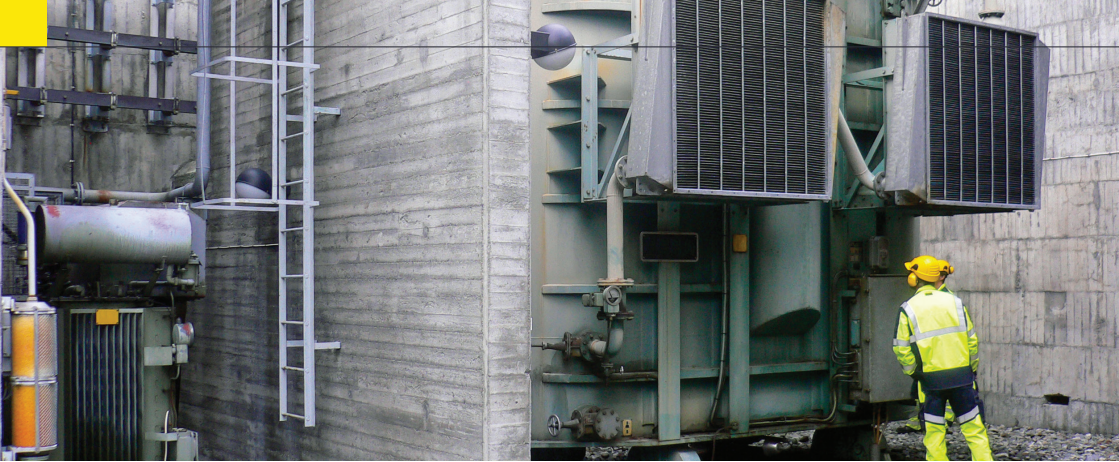
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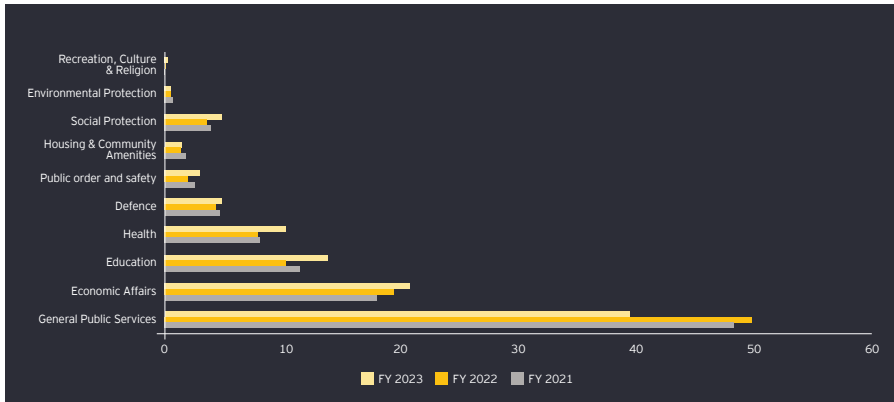
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## 2023 National Budget Summary

In 2023, the Zambian Government proposes to spend a total of ZMW167.3 billion or 31.4% of GDP compared to ZMW173.0 billion spent in 2022 which was equivalent to 37.1% of GDP. Thus, the 2023 national budget is less than the 2022 national budget by ZMW5.7 billion, a reduction equivalent to 3.3% of the 2022 budget.



Tables 1 and 2 provides an overview of the 2023 national budget and compares it to the 2022 and 2021 national budgets.

Government proposes to increase spending in all the functions by Government classification but one function, the general public services. In particular, Government proposes to reduce spending in the general public services function on account of a substantial reduction in foreign debt servicing obligations as reflected by a reduction in the proposed budgetary allocation to ZMW18.2 billion in 2023 from ZMW51.3 billion in 2022. In 2023, the general public services function will only account for 39.5% as a share of the total budget compared to 49.9% as a share of the total budget for 2022. Of the ZMW66.2 billion expenditure on the general public services function, ZMW30.5 billion will go towards

domestic debt servicing while ZMW6.8 billion will go towards dismantling of arrears owed to various suppliers of works, goods and services.

Government proposes to increase economic affairs spending to 20.9% as a share of the total budget for 2023 to support its goal of stimulating economic growth and improving the livelihoods of the Zambian people. Of the total amount for the function, ZMW11.2 billion has been allocated for various interventions in the agriculture, fisheries and livestock sub-sectors in line with the Comprehensive Agriculture Support Program. ZMW5.2 billion has been allocated for road infrastructure while ZMW3.5 billion will be for the Constituency Development Fund. See figure 1 for the budgetary allocations to the various functions of expenditure



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## Analysis of Budget Allocations

In 2023, the general public services function will receive a total of ZMW86.2 billion from ZMW86.4 billion in 2022 and from ZMW57.8 billion in 2021.

As a share of the total budget, there has been a reduction in expenditure on general public services from 49.9% in 2022 to 39.9% in 2023. Out of the total general public services allocation of ZMW86.2 billion, ZMW30.5 billion is for domestic debt servicing, ZMW18.2 billion is for external debt servicing and ZMW6.8 billion is for dismantling domestic arrears bringing the total for debt servicing and dismantling of domestic arrears to ZMW55.5 billion.

Clearly, there has been substantial reduction in resources allocated to debt servicing and dismantling of arrears in the 2023 budget from a total of ZMW81.8 billion in 2022 to a total of ZMW55.5 billion in 2023 representing a 32% reduction. The reduction has seen foreign debt servicing being allocated ZMW18.2 billion in 2023 as compared to ZMW51.3 billion in 2022 although the Minister of Finance and National Planning made it clear that the allocation towards debt service does not take into account debt restructuring and will be subject to

change once an agreement is reached with creditors.

The total debt servicing and dismantling of arrears for 2022 is broken down as follows: ZMW51.3 billion was for external debt servicing; ZMW27.4 billion for domestic debt servicing; and ZMW3.1 billion for dismantling domestic arrears. Even with the reduction in the allocation for debt servicing including dismantling of arrears in the 2023 budget, the two budgetary items still account for 33% of the total budget and in 2022 accounted for 47% of the total budget. When compared with the combined allocation of resources to key economic and social protection, the said sectors only account for 25% of the total budget in 2023. It can thus be argued that debt servicing and dismantling of arrears take away resources from the key economic and social sectors of the economy.

The economic affairs function received an increase in allocation of 3.9% in 2023 following a major increase in allocation of

56.7% in 2022 and in absolute terms has been allocated ZMW35.0 billion in 2023 and received ZMW33.7 billion in 2022, respectively. The economic affairs function allocation as a share of the total budget increased from 19.5% in 2022 to 20.9% in 2023. The increase in allocation for the function in 2023 is mainly on account of the allocation to various interventions in the agriculture, fisheries and livestock sub-sectors in line with the Comprehensive Agriculture Support Program which received an allocation of ZMW11.2 billion. Further, Constituency Development Fund received an allocation of ZMW3.5 billion and road infrastructure received an allocation of ZMW5.16 billion. Other notable programs in the 2023 budget include rural electrification, empowerment and credit guarantees funds for the small and medium enterprises (SMEs), border infrastructure and provincial aerodromes infrastructure with allocations of ZMW743.6 million, ZMW547.4 million, ZMW150 million and ZMW355 million, respectively.

The allocations to the economic affairs function reflect the Government's desire to continue with its agenda of transforming the economic landscape of the country through increased participation of its citizenry and the SMEs in economic activities and through increased business opportunities for all which will lead to wealth and job creation and ultimately contribute to the economic growth of the country.

In the health function, the budgetary allocation as a share of the total budget increased to 10.4% in 2023 from 8.0% in 2022 and in absolute terms increased to ZMW17.4 billion in 2023 from ZMW13.9 billion in 2022 representing a percentage increase of 25.2%. A notable change in expenditure in the health sector is the increase in allocation to procure drugs and

medical supplies by 35% to ZMW4.6 billion in 2023 from ZMW3.4 billion. To build on the gains made in 2022 which included the recruitment of at least 11,000 frontline health personnel, Government proposes to recruit additional health personnel amounting to 3,000 in 2023 and thus has allocated ZMW307.5 million for this activity.

The education function received a substantial further increase in the budgetary allocation for 2023 following another increase in 2022. The function's allocation as a share of the total budget increased to 13.9% in 2023 from 10.4% in 2022. In absolute terms, the budgetary allocation for education has increased to ZMW23.2 billion in 2023 from ZMW18.1 billion in 2022 representing an increase of 28.2%. The increase in education by function expenditure is meant to build on the successes made in 2022 which include the recruitment of at least 30,000 teachers, and the provision of free education for primary and secondary school education up to grade 12. Notable budgetary allocations in 2023 include the provision of ZMW358.4 million for the recruitment of 4,500 additional teachers. The government has further allocated ZMW930.2 million to the Higher Education Loans and Scholarship Board for the provision of student bursaries and student meal allowances. The government, thus, has re-introduced student meal allowances for students on government bursaries in 2023.

The government's budgetary allocations as a percentage share of the total budget to social protection, defense, public order and safety, housing and community amenities, environment protection and recreation, culture, and religion has increased in 2023. The social protection budget as a share of the total budget has been proposed to be increased to 4.9% in 2023 from 3.6%



in 2022 and in absolute terms to ZMW8.2 billion from ZMW6.3 billion in 2022. The noted budgetary inclusion for 2023 is the ZMW300.0 million for retirement benefits under the Local Authorities Superannuation Fund. Furthermore, budgetary allocation for the Social Cash Transfer Program has been increased by a further 19.8% to ZMW3.7 billion in 2023 from ZMW 3.1 billion in 2022 while ZMW1.2 billion has been allocated for the Food Security Pack in 2023 to support the vulnerable but viable farmers. ZMW133.5 million has been provided in 2023 for the Keeping Girls in School Program. 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 post COVID - 19.

Further, budgetary allocations for defense and public order and safety have been increased as a percentage share of the total budget to 4.9% and 3.1% in 2023 from 4.4% and 2.0% in 2022, respectively. In absolute terms, the budgetary allocations to the two functions increased to ZMW8.2 billion and ZMW5.2 billion from ZMW7.6 billion and ZMW3.5 billion in 2022, respectively.

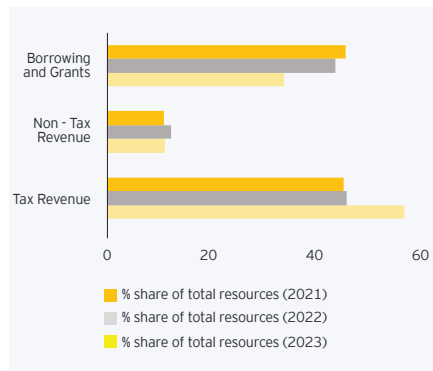
To support the 2023 ZMW167.3 billion national expenditure, Government proposes to collect revenue through both tax and non - tax measures coupled with increased tax compliancy levels. The measures will result in an increase in tax revenue collected to cover 55.9% as a share of the total revenue in 2023. In addition, 10.8% of the total revenue will be in form of non - tax revenues.

In 2023, Government hopes to raise ZMW111.6 billion or 20.9% of GDP as domestic revenue which has been increased by 12.9% to 2022 domestic revenue which stood at ZMW98.86 billion. Government, therefore, hopes to increase

the share of domestic financing in its resource envelope in 2023 to 66.7% as a share of the total budget compared to 57% in 2022.

The government further proposes to increase the share of total foreign financing and grants in 2023 by 12.1% to ZMW55.7 billion from ZMW49.67 billion in 2022. In particular, ZMW1.7 billion will be in form of grants from Cooperating Partners while ZMW54 billion will be debt financing. Thus, the budget deficit for 2023 is estimated to be ZMW40.9 billion or 7.7% of GDP. See Figure 2 for the summary of the country's resource envelope for 2023 in comparison to the 2022 and 2021 fiscal years.

Government proposes to offer various tax and non-tax relief incentives to the productive sectors and employees which are meant to increase investments, spur growth for the productive sectors as well as increase disposable incomes for employees thus resulting in an increase in consumer spending and ultimately the growth of the domestic economy.



# 2023 National Budget Tax and Related Measures

## 1. Corporate Income Tax

### Proposed change

Restructure of Mineral Royalty to only tax the incremental value of copper in each price band when the price crosses each Mineral Royalty price threshold. In addition, the proposed amendment includes the reduction of the lowest marginal rate to 4% from 5.5%.

### Current Mineral royalty tax regime

Price Range	Taxable Amount	Rate (%)
Less than USD4,500 per tonne	Full price amount	5.5
USD4,500 per tonne or more but less than USD6,000 per tonne.	Full price amount	6.5
USD6,000 per tonne or more but less than USD7,500 per tonne	Full price amount	7.5
USD7,500 per tonne or more but less than USD9,000per tonne	Full price amount	8.5
USD9,000 per tonne or more	Full price amount	10

### Proposed Mineral royalty tax regime

Price Range	Taxable Amount	Rate (%)
Less than 4,000 per tonne	The first USD4,000	4.0
USD4,001 per tonne or more but less than USD5,000 per tonne	The next USD1,000	6.5
USD5,001 per tonne or more but less than USD7,000 per tonne	The next USD2,000	8.5
USD7,001 per tonne or more	The balance	10

### Our comment

Mineral royalty in the Mines and Minerals Development Act is defined as a payment received as consideration for the extraction of minerals. The imposition of mineral royalty tax on the full price of copper

in each band negatively affected mining company's cashflows. This resulted in a disincentive for further investment in the mining sector.

The amendment is also intended to improve the competitiveness of the

#### Proposed change

Restructure of Mineral Royalty to only tax the incremental value of copper in each price band when the price crosses each Mineral Royalty price threshold. In addition, the proposed amendment includes the reduction of the lowest marginal rate to 4% from 5.5%.

#### Proposed change

Remove the two-tier taxation of the telecommunication sector and streamline the taxation of all income at a single rate of 35%

#### Proposed change

Introduce a threshold on turnover tax and rental income tax of ZMW12,000 per annum taxable at 0% and the balance at the applicable Turnover Tax rate.

Zambian tax regime by reducing the effective tax rate that had been one of the highest globally.

#### What this means for the mining entities:

Once this measure is

implemented it will act as an incentive for mining companies to recapitalize and expand existing operations, or develop new projects with certainty around mining tax policy.

#### Our comment

Currently, there are two income tax rates applicable to telecommunication companies as follows:

- i) Taxable income of up to ZMW250,000 is taxed at the rate of 30% per annum.
  - ii) Taxable income above ZMW250,000 is taxed at a rate of 40% per annum.
- Prior to 2012, the telecommunication sector was taxed at a flat rate of 35%. The re-introduction of a single rate of 35% is commendable. The Eighth National Development Plan identifies the Infor-

mation, Communication and Technology sector as a key sector in the growth of the economy. The reduced tax rates should allow the industry to invest more in infrastructure and increase user access.

#### What this means for you:

Telco companies must review their financial models to determine the impact of the tax rate on their investment plans. Taxpayers, with tax losses brought forward, should evaluate the potential reduction in deferred tax assets.

#### Our comment

Currently, annual gross income of below ZMW800,000 is taxed under turnover tax at a rate of 4%. The proposed amendment is intended to reduce the cost of the collection of tax on annual income of ZMW12,000 and below. The ZRA has noted that the cost of collecting

tax on taxable amounts of ZMW12,000 and below, was higher than the tax being collected or pursued.

#### What this means for you:

The introduction of the ZMW12,000 annual threshold could result in a saving of up to ZMW480 in turnover tax per annum.

### Proposed change

Corporate Income Tax rate from 30% to 25% for lapidary and jewelry facilities in the gemstone industry

### Our comment

In a bid to promote value adding activities in Zambia, diversify the economy and create employment, the Government proposes to reduce Corporate Income Tax for lapidary and jewelry

facilities in the gemstone industry to 25% from 30%. The reduced rate should encourage investment in value addition as currently most gemstones are exported uncut.

### Proposed change

Extend the local content allowance at the rate of 2% for income tax purposes to encourage value addition to tomatoes.

### Our comment

Currently, the local content allowance is applicable to value addition to mango, pineapples and cassava.

The measure intends to further incentivize the manufacturing and processing of tomatoes.

### Tax Incentives

Introduce income tax concessions for 15 years on income generated from the sell of corn starch by agro-processing businesses operating in a Multi-Facility Economic Zone (MFEZ) or Industrial Park under the Zambia Development Agency Act No. 11 of 2006, as follows;

- a. 0% Corporate Income Tax charged on profits arising from local sales of corn starch for the 2023 - 2033 charge years;
- b. 50% Corporate Income Tax charged on profits arising from local sales of corn starch for the 2034 - 2036 charge years;
- c. 25% Corporate Income Tax charged on profits arising from local sales of corn starch for the 2037 - 2038 charge years; and
- d. Waive Withholding Tax on dividends declared on profits made from local sales of corn starch for the 2023 - 2033 charge years.

### Our comment

The measure is intended to encourage investment in the production of corn starch in Zambia. Corn starch is the starch derived from corn (maize) grain. The starch is obtained from the endosperm of the kernel. Corn starch is a common food ingredient, often used to thicken sauces or soups, and to make corn syrup and other sugars that may be used for cooking and animal feed.

There is no corn starch manufacturing currently in Zambia and the measure is intended to kick-start new investment.

However, to assure investors of the certainty of the incentives, it is critical that the authority to revoke tax incentives remains with the Zambia Development Agency rather than the ZRA. The ZRA's role should be limited to the administration of the incentive only.



### Proposed change

Reduce the tax chargeable on income received by a Special Purpose Vehicle (SPV) under a Public Private Partnership (PPP) for the first five years that a project makes profit, by 20% of the tax which would otherwise be chargeable on that income.

Introduce an accelerated rate of wear and tear allowance on a straight-line basis not exceeding 100%, in respect of any implement, plant and machinery acquired and used under Public Private Partnerships projects.

### Proposed change

Exempt Investment Income on Life Insurance Funds.

### Proposed change

Increase the allowable expenditure for the construction of employee housing to ZMW100,000 from ZMW20,000.

### Our comment

The measures are intended to stimulate private sector participation in Public Private Partnerships which will contribute to narrowing the infrastructure budget deficit. Previously, most large public sector projects have been financed by debt or concessional loans.

These have added to the

country's debt burden and subsequent distress. Debt financing is no longer a viable option even though infrastructure remains critical to the country's growth objectives. The incentives proposed for PPP projects should increase the private sectors appetite for investment in public infrastructure projects.

### Our comment

The measure is intended to increase the return from investments in life insurance funds and stimulate the uptake of life insurance services.

This measure will also align the tax treatment of investment income earned by life insurance funds with international good practices.

### Our comment

The fifth schedule of the Income Tax Act states that any building constructed or acquired by a person to provide housing for the purposes of that person's business is an industrial building, provided that the cost of each housing unit does not exceed ZMW20,000.

Currently, employers are only allowed to claim a 10% allowance on ZMW20,000 incurred on the construction of employee housing. This measure is appropriate because the cost of building is high and

the allowance on which to claim capital allowances was low, as a result, the allowance became a disincentive for employers to build houses for the employees. The increase in allowable expenditure encourages employers to provide comfortable housing for employees.

### What this means

Employers will be able to claim a wear and tear allowance of 10% on the cost of the housing unit up to ZMW100,000.



**Proposed change**

Increase the Farm Improvement Allowance threshold upwards to ZMW100,000 from ZMW20,000.

**Proposed change**

Introduce a presumptive tax on income earned from artisanal and small-scale mining at the applicable turnover tax rate which is based on the gross turnover less mineral royalty paid.

**Proposed change**

Reduce presumptive tax to 15% from 25% on land-based (brick and mortar) betting companies for the 2023 and 2024 charge years.

**Our comment**

The Income Tax Act states that “farm dwelling” means a permanent building, used as a dwelling that is not used by the farmer for himself and his family. Further “farm improvement” means any permanent work, including a farm dwelling and fencing appropriate to farming and any building constructed for and used for the welfare of, employees, and in rela-

**Our comment**

Currently, all mining companies are subjected to tax at the same rate regardless of the scale. This measure is intended to simplify the tax regime for a holder of an artisanal and small-scale mining license to simplify and encourage tax com-

**Our comment**

Brick and mortar, also known as offline, is where bettors go to place their wagers. For example, this would include going to a bookie, sportsbook, horse track, or casino. There has been an increase in Brick-and-mortar gaming entities in Zambia. However, the monitoring and taxation of the income of these entities, has been a challenge,

tion to farming land owned or occupied by the farmer claiming the allowance under this Part for ascertainment of his profit.

The proposal to increase the threshold will enable farm owners to claim 100% farm improvement allowance. This measure will encourage employers to provide adequate accommodation to employees.

pliance. It is anticipated that the simplification of the mining tax regime for small-scale miners will stimulate growth in the informal economic sector and create jobs. Consequently, the tax base will expand to supplement domestic revenue.

therefore Government proposes to reduce the presumptive tax rate in order to promote transparency and compliance in the sector. Capturing this tax base will still remain a challenge because the lack of technological advancement within the ecosystem in which the ZRA operates will continue to hinder the authority's efforts to efficiently monitor and control compliance.



**Proposed change**

Extend the Turnover Tax regime to service providers in the gig economy.

**Proposed change**

Increase the disallowed amount to 37.5% from 30% for an employer who provides non-cash fringe benefits in the form of housing.

**Proposed change**

Adjust upwards by 20% the benefit to be disallowed in the employers' tax computation for the provision of motor vehicles to employees on a personal-to-holder basis.

**Our comment**

This measure is intended to simplify the tax regime and improve compliance amongst taxpayers in this sector. Currently, entrepreneurs conducting their businesses through digital platforms pay their tax under the corporate income tax regime. This category of taxpayers includes independent (freelance)

contractors working as content developers, online marketers, and online traders among others. It is important that the ZRA outline administrative measures they will consider in monitoring the digital economy. Stakeholder engagement and support from the private sector will be key to identifying and implementing digital solutions.

**Our comment**

This measure relates to employers that provide free housing to an employee, conditions of the housing include that an employee may only live in the house and not lease it out. The employee cannot, therefore, convert the free housing benefit into cash, or any other pecuniary benefit nor can they transfer or dispose of the benefit or advantage of free housing. Previously non-deductible expenditure relating to non-cash fringe benefits on housing was 30% of

the employee's annual emoluments. Government proposes to increase the amount from 30% to 37.5%. This measure is intended to align the disallowed expenditure on non-cash fringe benefits with the PAYE highest tax band.

**What this Means**

Where an employer provides accommodation to an employee, 37.5% of the employee's annual emoluments will be disallowed in the employer's corporate tax computation.

**Our comment**

The non-deductible expenditure relating to personal-to-holder motor vehicles depends on the cylinder capacity of

the motor vehicle. This proposed change will increase the disallowed expenses in the employer's corporate tax computation by 20%.





Cylinder Capacity	Current non-deductible amount	Proposed change (20% increase)
Below 1,800	ZMW18,000	ZMW21,600
1,800 and below 2,800	ZMW30,000	ZMW36,000
2,800 and above	ZMW40,000	ZMW48,000

## HOUSEKEEPING MEASURES

**Expand the definition of the term Royalties to include rent of software for income tax purposes.**

This proposal aims to bring the rental of software within the scope of withholding tax. However, whilst the change continues the alignment of the Royalty definition in the Income Tax Act with the United Nations Model Double Tax Convention, a large majority of double tax agreements are aligned to the OECD model that doesn't include equipment or software rental in the definition of royalties. This may give rise to disputes as the treaty provisions override the provisions of the ITA.

**Introduce, under the Income Tax Act, specific penalties for negligence, wilful default and fraud with respect to presumptive tax on gaming machines and casino games (brick and mortar) as follows:**

- ▶ **Negligence** - half the amount of undeclared tax.
- ▶ **Wilful default** - equivalent to the amount of undeclared tax.
- ▶ **Fraud** - one and half times the amount of undeclared tax.

Through the implementation of penalties for negligence, wilful default, and fraud, the introduction of penalties will deter non-compliance.

**Introduce the use of electronic fiscal devices and other devices for income tax purposes and provide for penalties for non-compliance.**

This measure is intended to improve compliance by empowering the Minister to issue detailed guidance for the administration of electronic fiscal devices and other devices. This measure will also provide for penalties for non-compliance.





**Redefine the term “child” in the Income Tax Act to remove the word “illegitimate”**

The change aims to bring the definition of a child to agree with Chapter 52 of the Zambian Laws, the Legitimacy Act, and the UN Convention on the Rights of the Child.

**Amend the definition of “purchase price” to include resident to resident transactions**

Previously purchase price was defined as “the amount paid by a non-resident to a person resident in the Republic in return for future payments of commodity royalty”

This measure is intended is to bring transactions between resident persons under the scope of withholding tax.

**Amend the Income Tax Act to align the minimum age for TPIN registration to that of the issuance of a National Registration card at 16 years.**

The aim of the measure is to make the minimum age for TPIN registration and National Registration Card acquisition the same. Additionally, this will give all owners of National Registration Cards the opportunity to open bank accounts when the necessity arises.

**Amend the Second Schedule to the Income Tax Act under Paragraph 6A to remove the word “withholding tax” from the side note and the main text.**

This measure aims to clarify that any interest on treasury bills, government bonds, corporate bonds or any financial instrument or securities received by a public benefit organization, person or trust will be subject to tax.

**Clarify that payment of tax is due and payable within 90 days of registration for income tax if such registration is made after 31 March.**

This measure aims to establish a deadline for tax payments related to provisional returns that are filed for income tax registrations that occurred after March 31. Within ninety days of registration, payment is required.







### **Align the Income Tax Act with the Pension Scheme Regulations Act**

The proposed amendments include:

- ▶ The deletion of the Fourth Schedule of the Income Tax Act
- ▶ Providing in the Income Tax Act that a pension approved under the Pension Scheme Regulations Act is exempt from tax
- ▶ Inserting the approval criteria in the Pension Scheme Regulation Act that was covered in the Fourth Schedule to the Income Tax Act but is not in the Pension Scheme Regulation Act.

This measure seeks to bring into line the Income Tax Act with the Pension Scheme Regulations to streamline the process for approving pension funds.

### **Make it mandatory for all employers to submit the TPIN for all their employees in the Pay As You Earn return.**

This measure is intended to encourage the registration of TPINs by individuals and provide a mechanism to monitor PAYE contributions. Individualized statements, which will be feasible to prepare once this measure is in place, will also make it simple for employees to determine whether their PAYE contributions are being accurately reported to ZRA by the employers. The employers will mitigate their exposure to PAYE audits, and lower their compliance expenses in the process.

Companies must ensure that their employees provide them with their TPINs before the end of 2022 to ensure that there is no delay in the submission of the January 2022 PAYE return

### **Extend fiscalisation to taxpayers registered under Turn-over Tax and Presumptive Tax on Gaming and Betting.**

This measure intends to increase domestic resource mobilization and tax compliance.



## 2. Transfer Pricing

### HOUSEKEEPING MEASURES

#### Proposed change

Amend the definition of “Multinational Enterprise (MNE) Group” and “Ultimate Patent Entity” (UPE) to align with the Organization for Economic Cooperation and Development (OECD) definition for Country-by-Country (CbC) reporting

#### Our comment

The CbC reporting Regulations were first introduced in Zambia in 2020. These Regulations provided a definition of an MNE Group and UPE. However, the definition as per the Regulations did not align with the definition provided for under the OECD. Zambia is a member of the OECD and is required to have all

Regulations that cover the Base Erosion and Profit Shifting (BEPS) agenda agree with the OECD guidance. The current definition of MNE Group and UPE in the Zambia TP Regulations may result in the misinterpretation of the law.

The consistency of the definitions will prevent ambiguous interpretations by taxpayers.

#### Proposed change

Amend the Regulations to provide for the use of a single currency for the threshold for the Country-by-Country (CbC) Report as prescribed by the OECD.

#### Our comment

The amendment will lessen the burden on taxpayers by using the single currency test as opposed to the double currency test, and reduces filing obligations as taxpayers may opt to use

the higher value of the two currencies as a threshold. The amendment will allow for the filing obligations in Zambia to be consistent with the OECD and provide for a single currency to be used.

#### Proposed change

Amend the Regulations to align the requirements to be met for conditional filing of the CbC Report to the guidance by the OECD.

#### Our comment

Generally, the OECD prescribes that the MNE group should only be required to file a CbC Report once for each reporting fiscal year, in the jurisdiction of its UPE. However, there may be cases where a constituent entity (i.e., an entity within the MNE group) that is not the UPE may be required to file the CbC Report directly with its revenue authority but only if one or more of the following conditions have been met:

- ▶ There is no obligation on the UPE to file a CbC Report in its residence jurisdiction.
- ▶ There is an international agreement permitting the automatic exchange of information between the jurisdictions of the UPE and the constituent entity but there is no competent authority agreement in effect providing for the automatic exchange of CbC Reports.



**Proposed change**

Reduce tax on winnings from gaming and betting to 15% from 20%



- ▶ There has been a systemic failure by the residence jurisdiction of the UPE to exchange CbC Reports that has been notified to the constituent entity by the local tax authority.

The above conditions are currently reflected in the TP Regulations, however, the OECD Guidance on the implementation of the CbC reports provides further guidance with respect to the conditions which include: “The first of these conditions applies if the tax jurisdiction where the Ultimate Parent Entity of an MNE group is resident has not introduced a requirement for a CbC report to be filed. It also applies where the jurisdiction has introduced a requirement for a CbC report to be filed but this is not in accordance with the BEPS Action 13 minimum standard (including taking into account interpretative

guidance) and, as a result, the Ultimate Parent Entity of an MNE group is not obligated to file a CbC report in that jurisdiction. Where the tax residence jurisdiction of the Ultimate Parent Entity of an MNE group does not require a CbC report to be filed, and this is in accordance with the BEPS Action 13 minimum standard (including taking into account interpretative guidance), the first condition is not met. In this case, local filing is not accepted and jurisdictions cannot under the minimum standard require Constituent Entities to file a CbC report under local filing rules.”

The above OECD commentary provides comprehensive guidelines, including interpretation guidelines, from which entities will determine if a CbC report is required to be filed in Zambia.

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### 3. Withholding Tax

#### Our comment

The reduction of withholding tax on winnings from lotteries, betting, and gaming by 5% for the charge years 2023 and 2024 is intended to improve compliance in the industry.

#### What this means for you

The measure is intended to improve tax compliance within the industry.





**Proposed change**

Removing 20% Withholding Tax on reinsurance and retrocession.

**Proposed change**

Exempt from withholding tax interest income earned on green bonds listed on the securities exchange in Zambia with maturity of at least 3 years

**Proposed change**

Remove the 15% withholding tax on investment income on life insurance funds

**Our comment**

Prior to the proposed amendment, withholding tax on reinsurance and retrocession placed with reinsurers not licensed in Zambia was at 20%. However, the Minister has proposed to remove the tax. This measure is commendable especially for secondary reinsurance as it will allow reinsurance companies to transfer their risk to larger reinsurers

which will in turn support the growth of the insurance industry.

**What this means for you**

This measure will enable insurance companies to transfer their risk offshore thus providing relief to the local market from all insurable risks. Taxpayers will have the added security of offshore reinsurance and benefit from reduced premiums.

**Our comment**

A green bond is a fixed-income instrument designed to support specific climate-related or environmental projects. One of the main aims of the green bond is to satisfy the ESG (Environmental, Social and Governance) requirements for sustainable investments which is in line with the international best practice. This exemption aims to encourage both foreign and local investments in

sustainable projects in Zambia.

**What this means for you**

Despite the availability of green financing including green bonds, uptake has been slow as potential borrowers often perceive the process and related compliance requirements to be cumbersome. The removal of withholding tax should encourage additional fund outlay and uptake of green bonds.

**Our comment**

The minister has proposed that the 15% withholding tax on investment income on life insurance funds be removed, this measure is intended to increase the return from investments in life insurance funds and stimulate the uptake of life insurance services by taxpayers.

**What this means for you**

This measure aims to align the tax treatment of investment income earned by life insurance funds with international best practices as well as foster growth in the insurance industry.

### Proposed change

Reduce the rate of withholding tax to 0% from 15% on interest earned by individuals from loans advanced by members under the savings groups such as co-operatives and village banking.

### Proposed change

0% withholding tax on dividends declared on profits for charge years 2023 to 2033 (Agro-processing in the MFEZ or rural areas).

### Proposed change

Increase the exemption threshold for Pay As You Earn (PAYE) to ZMW4,800 per month from ZMW4,500, and reduce the marginal tax rate for the second income bracket to 20% and adjust the income bands accordingly.

### Our comment

Prior to the amendment, the withholding tax rate on interest earned by individuals from loans under savings groups, including village banking schemes, was at 15%, however, the minister has proposed that the interest earned from these groups be taxed at 0%. The measure aims to stimulate the growth of Small and

Medium Enterprises (SMEs) by enabling them to have access to low-cost finance.

### What this means for you

This measure aims at increasing financing options for SMEs by reducing the cost of acquiring capital, which will result in growth in the sector and encourage entrepreneurship.

### Our comment

The minister has proposed to introduce a 0% tax incentive on dividends declared on profits from local sales of corn starch for ten years for companies operating in the MFEZ or rural areas. This measure is intended to attract investment in the agro-processing industry for corn starch processing which will in turn enhance

the value chain from maize harvests and contribute to employment creation.

### What this means for you:

This is one of the many incentives that have been put in place to encourage active participation in the agro-processing industry to foster growth in the sector and attract new investment.

P. Mawire, "G, "Global Green Bonds Market is Gaining Traction - Will it Gain Ground in Zambia?," 12 September 2022. [Read article here](#)

## 4. Pay As You Earn

Current Regime		Proposed Regime	
Income Band	Tax Rate	Income Band	Tax Rate
0 - ZMW 4,500 per month	0%	0 - ZMW4,800 per month	0%
ZMW 4,501- ZMW 4,800 per month	25%	ZMW 4,801- ZMW 6,800 per month	20%
ZMW 4,801- ZMW 6,900 per month	30%	ZMW 6,801- ZMW 8,900 per month	30%
Above ZMW6,900	37.5%	Above ZMW 8,900	37.5%



#### Proposed change

Increase the exemption threshold for Pay As You Earn (PAYE) to ZMW4,800 per month from ZMW4,500, and reduce the marginal tax rate for the second income bracket to 20% and adjust the income bands accordingly.

#### Proposed change

Increase tax credit for persons with disabilities to ZMW600 per month from the current ZMW500 per month.

#### Proposed change

Increase Property Transfer Tax (PTT) rate to 7.5% from 5% on the transfer of land, shares and intellectual property.

#### Our comment

The proposed changes may allow individuals to save if inflation remains a single digit.

#### What this means for you

It is important to note that the reduction of the marginal tax rate for the second income

bracket from 25 percent to 20 percent will result in a further increase in disposable income for the employees and will significantly lessen individual taxpayer burden thereby improving the standard of living for employees with lower income.

#### Our comment

This measure is focused on increasing the disposable income for persons with disabilities thereby contributing to improved livelihoods.

## 5. Property Transfer Tax

#### Our comment

Currently, PTT is payable on the transfer of land, shares and intellectual property at the rate of 5%. The Minister's proposal to increase the tax rate from 5% to 7.5% is aimed at increasing domestic revenue. This is a significant increase given the relatively high base of PTT (gross revenue as opposed to profit on disposal). Efforts must be made to widen the tax base to properties on traditional land holding that continue to exchange hands-free of PTT.

#### What this means for you

The proposed effective date of increase of PTT rate is 1 January 2023. This means that the direct

or indirect transfer of property that takes place prior to this date should still be subject to 5% PTT. However, it is important to note that a transaction that occurs in 2022 but is declared in 2023 may be assessed at a rate of 7.5% because the ZRA system would have been configured to apply the rate of 7.5% effective 1st January 2023. Therefore, it will be critical to obtain an advance ruling from ZRA confirming that a transaction that occurs in December 2022, for example, that is declared in January 2023 through the ZRA online system will be taxed at 5%.



### Proposed change

Reduction in the PTT rate on the transfer of exploration licenses from 10% to 7.5%.

### Proposed change

Clarification of the Property Transfer Tax Act to explain that a share with respect to the mining sector includes “interest in a mining right” and “an interest in a mineral processing license”.

### Our comment

Currently, PTT is applicable on the transfer of mining rights at a rate of 10%. Mining rights under the Mines and Minerals Act include exploration licenses and mining licenses. A large portion of Zambia is still unexplored for mining purposes. The Government has an ambitious target of producing 3,000,000 tons of copper per annum, within the next 10 years, from the current annual production of approximately 850,000 tons. In order to achieve this target, the Government proposes to reduce the PTT rate applicable on the transfer of an exploration license to incentivize

investment in exploration and consequently contribute to copper production. However, further efforts must be made to free mining licenses, a large number of which are held by hoarders for speculative purposes with very little exploration taking place.

### What this means for you

Mining exploration companies that transfer their mining rights will now account for PTT at a reduced rate of 7.5%. This will consequently reduce costs attributable to exploration and unlock investment in the mining sector.

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## HOUSEKEEPING MEASURES

### Our comment

Currently, the PTT applies to the direct and indirect transfer of a share. PTT also applies on the transfer of a mining license, mineral processing license and an interest in a mining license. The current wording of the Act gives rise to potential double taxation for mining companies that transfer shares. The transfer could potentially be subject to PTT on the transfer of

shares as well as on the transfer of an interest in a mining right, given the shares intrinsically represent an interest in a mining right, the proposed amendment removes the ambiguity and confirms that the transfer of the interest in a mining right and mineral processing license, respectively, will not be taxed separately from the transfer of shares.



### Proposed change

Clarification of the definition of realized value in the PTT Act and computation of PTT on indirect transfer of shares as well as deletion of the definition of effective shareholding under the Property Transfer Tax Act.

### Proposed change

Exempt the surrender or forfeiture of shares from Property Transfer Tax.

### Our comment

Currently, the PTT Act provides that the realized value of a share that is transferred is the higher of; the effective shareholding multiplied by the value of the transferred shares, the effective shareholding multiplied by the consideration of the transferred shares, or effective shareholding multiplied by the nominal value of the transferred shares.

However, the wording in the legislation is ambiguous as it does not state whether PTT is taxable on the value of the transaction that is attributable to the Zambian entity in the case of indirect transfer of shares made in the group. This amendment, therefore, clarifies that PTT is applicable only on the value of shares that are attributable to the Zambian entity. Furthermore, the PTT act defines effective

shareholding as the extent of control or ownership in the company incorporated in the Republic by the company incorporated outside the Republic expressed as a percentage.

The measure aims to remove the ambiguity in the computation of the realized value on the transfer of shares following the clarification provided above.

### What this means for you

In determining the realized value of shares transferred in the group, taxpayers must consider the value of the Zambian entity as a proportion of the group. Therefore, the realized value will be the higher of the value of the transferred shares, consideration for the transferred shares or nominal value of the transferred shares attributable to the company incorporated in Zambia.

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### Our comment

Currently, the PTT Act does not provide guidance on the applicability of PTT on the surrender or forfeiture of shares. Previously, the forfeiture of shares was considered a transfer and PTT was applied accordingly.

The amendment clarifies that PTT is not applicable in circumstances where shares have been surrendered or forfeited involuntarily by an individual or entity.





**Proposed change**

Remove the reference to the Commissioner of Lands and prescribe how the provisional return in respect of land shall be submitted.

**Proposed change**

Allow for the use of the actual price received in determining the realized value for the disposal of distressed property by a financial services provider.

**Proposed change**

Amend the Zero-Rating Order to include the supply of milk cans, churns and milking machines.

**Our comment**

With regards to the transfer of land, the PTT Act provides that a provisional return is required to be submitted to the Commissioner of Lands together with the application for consent to transfer the property. However, the current

practice is contrary to the legislation as provisional returns are submitted to the Commissioner General. Therefore, the amendment aims to align the legislation to the current practice by removing the reference made to the Commissioner of Lands.

**Our comment**

The PTT Act currently provides that the open market value for the transfer of property is the value on which PTT is applied. However, in most cases, the actual price received on the sale of distressed assets varies from the open market value. As a result, financial service providers could potentially account for PTT on the open market value

of a repossessed property that is priced below market value due to solvency or cash flow issues relating to the borrower as opposed to actual consideration received on the sale of the assets.

This amendment aims to permit the use of the actual consideration received as the realized value on the disposal of distressed assets.

## 6. Value Added Tax

### CONCESSION MEASURES

**Our comment**

The government has been consistent in its efforts to diversify the economy by encouraging more players to get involved in other sectors of the economy. One common measure that the government has been using recently is that of reducing the tax burden in the targeted sector. To this regard, the government has proposed to zero-rate selected machines and

accessories in the dairy sub-sector.

Currently, milk cans, churns and milking machines are standard rated. By zero rating the supply of milk cans, churns and milking machines, the government would like to encourage the growth of the dairy sub-sector by reducing the tax burden and promoting the utilization of appropriate milk handling equipment.



**Proposed change**

Zero rate the supply of selected Information and Communications Technology (ICT) and telecommunications equipment.

**Proposed change**

Amend the Value Added Tax Exemption Order to include gaming, betting and lotteries.

**Proposed change**

Amend the VAT Exemption Order to include game animals being imported as breeding stock.

**Proposed change**

Provide Value Added Tax relief on imported equipment and machinery where duty shall be waived under the Customs and Excise (Regulations) under a Public Private Partnership project, subject to the same limitations and conditions as shall be specified therein.

**Our comment**

The government is committed to promoting ICT in all sectors and societies of Zambia. The

proposed zero-rating of ICT and telecommunications equipment will serve as an incentive in the sector and attract investment.

**Our comment**

This policy aims to increase administrative effectiveness and address the industry's challenges when it comes to accounting for tax. Typically, international best practice dictates that Value Added Tax should not be applicable

to gaming, betting and lotteries because no value is added on winnings. The amendment demonstrates the government's consideration of international best practices to ensure the gaming industry tax regime in Zambia is competitive.

**Our comment**

This is one of the measures pronounced by the government aimed at improving and incentivizing investment in the tourism sector. The goal of the measure is to increase investment in breeding stock and consequently multiply the game that

attract many foreign tourists. The exemption will lead to the reduction and removal of the VAT liability on the importation of game animals. The exemption may attract local investment in addition to foreign investment.

**Our comment**

The government has continued emphasizing the role that the private has to play in developing the economy. The proposed policy aims to encourage private sector involvement in Public-Private Partnerships (PPP) to boost public infrastructure

development. The proposed change will reduce the cost of importing equipment and machinery under PPP and is likely to encourage the private sector to partner with the government to develop public infrastructure.



### Proposed change

Extend the provisions under the Value Added Tax (General) Regulations A of an “intending trader” to Special Purpose Vehicle for Public Private Partnership projects for a period of four years.

### Our comment

Currently, there are three categories of intending traders based on the number of years they can claim VAT under the VAT Act.

- ▶ 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.

The proposed amendment of intending traders now includes Special Purpose Vehicles (SPV) for PPP

projects. Intending traders engaged in PPP projects will be able to claim VAT for four years.

This is another measure by the government aimed at encouraging private sector involvement in economic development by ensuring that a special purpose vehicle created through a Public Private Partnership will be able to deduct input VAT during the initial four years of its operation.

The measure should encourage the much-needed private sector participation in developing the country.

### Proposed change

Standard rate the following Energy Saving appliances and equipment:

- ▶ Electric generating sets—diesel or semidiesel generators; and generators with spark ignition internal combustion piston engines;
- ▶ Ranges, grates, cookers (including those with subsidiary boilers for central heating), barbecues, braziers, gas rings, plate warmers and similar non-electric domestic appliances, and parts thereof, of iron or steel for cooking and plate warmers that use gas fuel or for both gas and other fuels.

## COMPENSATING MEASURES

### Our comment

Previously, Energy Saving appliances were Zero-rated as part of the green economy agenda to encourage alternative use of clean energy. This proposed measure may be counter-intuitive as it may lead to the citizenry resorting to the use of non-energy saving appliances and other sources of

energy including charcoal that would be cheaper, and in turn increase pressure on the national grid. That notwithstanding, this measure is a revenue-generating measure for the government and will see an increase in the VAT tax base as these products are frequently used house-hold goods.



**Proposed change**

Standard rate the supply of petrol and diesel effective midnight 30th September 2022.

**Proposed change**

Standard rate the goods imported by the Republican President.

**Proposed change**

Amend the Zero-Rating Order to restrict the concession on imported raw materials used to make mosquito nets to manufacturers of mosquito nets.

**Our comment**

In the recent past, there was a subsidy on the petrol and diesel (“fuel”) prices which led to the cushioning of high fuel prices driven by the war in Ukraine. The subsidy was in form of a waiver on VAT, Import Duty and Excise Duty on fuel. It appears that the proposed amendment is in line with

Government’s economic recovery plan to fulfill the conditions set under the IMF Extended Credit Facility arrangement. The withdrawal of the waiver comes at a time of relatively low oil prices and a strong local currency. This should cushion the impact of the withdrawal.

**Our comment**

Previously, goods imported by the president were Zero-rated. The proposed measure to standard rate

all imports by the President is a revenue collecting measure that is aimed at increasing the VAT tax base.

**Our comment**

Previously, the Zero-rating relief was applicable to all importers of raw materials used to make mosquito nets. This change is aimed at restricting the relief to manufacturers of mosquito nets. It is expected that administrative procedures will be enhanced to ensure

identification of registered manufacturers of mosquito nets is trouble-free.

**What this means**

Local manufacturers of mosquito nets are expected to regularize their business and obtain necessary proof to enable them to enjoy the relief.



### Proposed change

Amend the Value Added Tax Act to change the definition of “Commercial Property”. The measure proposes to standard rate the following:

- ▶ The sale of an interest in bare land being bought primarily for commercial use; and
- ▶ The sale of an interest in (largely) bare land on which a small portion contains commercial property as defined by the VAT Act

### Proposed change

Amend the Heading of Section 7A (1) of the Value Added Tax Act to read ‘Record of Sales’.

### Proposed change

Amend the Value Added Tax Act to increase the penalty regime to 300,000 penalty units from 30,000 penalty units.

### Our comment

We await to see the amendment bill for the wording of the proposed change. However, it appears that this is yet another revenue-generating measure by the Government aimed at increasing the VAT tax base by including bare land used for commercial use in the definition of Commercial Property.

It is worth noting, that currently the definition of Commercial Property as provided in Section 2 of the VAT Act is:

“a building that is used for commercial purposes, and includes an office building, an industrial

building, a health facility, hotel, shopping mall, retail shop, shopping center, warehouse, garage, recreation center, dwelling house used for commercial purposes and multi-facility building”

### What this means to you

Businesses and consumers in the real estate industry may be subjected to tax audits if the purchased land is proven to be used for commercial reasons. Previously, it may have been argued that unless a commercial property was erected, the bare land would enjoy the VAT exemption benefit.

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## HOUSEKEEPING MEASURES

### Our comment

This measure aims to align the heading of section 7A (1) of the VAT Act with the amendment that was made to the section. Section 7A (1) currently refers to Record of Daily Sales. This

headline was accurate in its interpretation of Section 7A (1)'s reference to daily sales. In light of the change that was made to 7A, this modification aims to align the heading with the subject 7A (1).

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### Our comment

The measure seeks to increase the penalty for fraudulent evasion of tax or fraudulent recovery of tax under VAT from 30,000 penalty units to 300,000. That is an increase from

ZMW 9,000 to ZMW 90,000.

This is a deterrent measure aimed at improving compliance by taxpayers by stiffening the penalties for fraudulent practices.



**Proposed change**

Amend the Value Added Tax Exemption Order to expand the definition of Poultry.

**Our comment**

The goal of this measure is to expand the list of birds whose feed is exempt from VAT to include quails and guinea fowls. This would

standardize how all birds raised for domestic or commercial use are treated when it comes to the VAT treatment of feed.

**Proposed change**

Amend the VAT (Electronic Fiscal Device) Regulations to rearrange the wording in order to reflect the correct order of approval of Accounting Software.

**Our comment**

The proposal aims to represent the integration and approval of Electronic

Fiscal Devices with accounting software, in the correct order.

**Proposed change**

Amend the Valued Added Tax (Electronic Fiscal Device) Regulations to provide for maintaining inspection logs (automated inspection logbooks).

**Our comment**

The goal of the proposal is to cut printing expenses and increase the range of electronic recording

to cover live, offline, and USSD while also allowing for both electronic and manual logbooks.

**Proposed change**

Amend the Value Added Tax Act to clarify when a tax invoice expires for purposes of deducting or crediting input tax.

**Our comment**

The goal of this measure is to make it clear that the three-month window is calculated based on the submission date of the

return in which the input tax is being deducted as well as the date of the supporting document for the input tax.

**Proposed change**

Amend the heading of Group 7 (h) of the Value Added Tax Zero-Rating Order to include the term "Solar Batteries".

**Our comment**

The legislation is intended to make it clear that only solar batteries are zero-rated.

**Proposed change**

Amend the VAT (Electronic Fiscal Device) Regulations to remove a provision adequately covered under the Information Communication Technology Act.

**Our comment**

Electronic equipment type approvals are covered by The Zambia Information and Communications Technology Authority (ZICTA) through

the Information Communication Technology Act. As such, the measure will see to it that this is left out of the VAT (Electronic Fiscal Device) Regulations.



### Proposed change

Amend the VAT (Electronic Fiscal Device) Regulations to delete the definition for “Zambia Information and Communications Technology Authority”.

### Our comment

Electronic equipment type approvals are covered by The Zambia Information and Communications Technology Authority (ZICTA) through

the Information

Communication Technology Act. The proposal will ensure that this is excluded from the VAT (Electronic Fiscal Device) Regulations.

### Proposed change

Various rates of customs duty have been removed on several agricultural manufacturing products and for biological control agents used in agriculture 5% has been removed.

### Our comment

The removal of customs duty on the specified agricultural manufacturing products will allow an increase in productivity in the agriculture sector because suppliers will now be able to import additional necessary supplies used for production. In addition, the specified

customs duty change on biological control agents is intended to encourage the use of environmentally friendly pest control techniques in horticulture and floriculture sub-sectors. This will improve the competitive advantage of products exported from Zambia.

### Proposed change

Customs duty applicable on greenhouse plastics used in agriculture is suspended to 0% from 15% up to 31st December 2025.

### Our comment

This measure is intended to promote investments in the floriculture and climate-

controlled agro-sectors to increase domestic exports of floral products.

### Proposed change

Customs duty on machinery equipment and articles used in aquaculture have been suspended to the 31st December 2025.

### Our comment

The suspension of customs duty will attract investment in the aquaculture sub-sector and increase the production of fish. This aligns with the Government's 8th

National Development Plan which seeks to provide a Fisheries and Aquaculture development program that will include initiatives expected to contribute to the growth of the agricultural sector by 10%.

### Proposed change

15% customs duty reduction on vegetable seedling growing media (peat moss) used in the production of vegetable seedlings.

### Our comment

The proposed amendment is intended to remove the barrier to entry for

commercial producers of vegetable seedlings in Zambia and promote local horticulture activities.





**Proposed change**

A 15% of suspension of customs duty has been imposed on imported Automated Teller Machines (ATM) for a period.

**Proposed change**

Remove 15% customs duty on gas cylinders.

**Proposed change**

Reduce customs duty on electric vehicles and electronic motorcycles to 15% from 30%.

**Proposed change**

Customs duty has been suspended on refuse compactor trucks, skip loader vehicles, road sweepers and skip bins to 31st December 2025. 5% suspension in customs duty for a period of three years on importation of equipment for baling waste.

**Our comment**

The amendment is intended to encourage financial inclusion by

increasing the number of ATMs that can be situated across the country.

**Our comment**

The removal of customs duty on gas cylinders will reduce the cost of liquefied petroleum gas and support the use of resources that produce fewer carbon emissions compared to sources of energy such as coal.

of liquefied petroleum gas may be required to revise their pricing strategy and make stock adjustments. We continue to call for the establishment of a gas cylinder exchange among suppliers to reduce the cost of multiple cylinders that consumers must maintain depending on the availability of gas from particular suppliers.

**What this means for you**

Businesses that are in the business of the distribution

**Our comment**

The reduction of customs duty on electronic vehicles is intended to encourage the public to consider the use of energy-efficient vehicles. However, the Government has not indicated whether there will be incentives provided

to businesses that will set up car charging stations, required for powering electric vehicles. Whilst the pronouncement has a positive externality, it is important for Government to study practical solutions to maintaining and using electric vehicles in Zambia.

**Our comment**

The relief from customs duty will be significant for the waste management industry in Zambia as it allows for the increase in the importation of capital assets that are essential to

the industry. In addition, the proposed amendment agrees with the Eighth National Development Plan to strengthen health security. The measures promote cleanliness and safe disposal of waste.



**Proposed change**

Customs duty on selected Information and Communications Technology (ICT) and telecommunications equipment suspended to 0% and 5% from 25% and 15% respectively for a period of 3 years.

**Proposed change**

Suspension of Customs Duty on importation of Safari vehicles under the tourism sector has been extended to 31st December 2025. Customs duty for the tourism sector has been suspended up to the 31st December 2025 on selected capital equipment, machinery, fittings, and fixtures that are not produced locally.

**Proposed change**

Extend the provisions of the customs and excise (suspension) (medical supplies) regulations, 2020, Statutory Instrument No. 78 of 2021 to 31st December 2023

**Proposed change**

Reduction in excise duty on clear beer made from cassava to 5% from 10% and excise duty on clear beer made from malt to 20% from 40% for production levels over and above the agreed production threshold, for the period 2024 - 2026.

**Proposed change**

25% of customs duty removed on prefabricated buildings up to 31st December 2025.

**Our comment**

This relief is intended to improve the competitiveness of the telecommunication sector by providing an opportunity to telecommunication companies in Zambia to access equipment that may be used to add value to their businesses

and attract investment that will advance mobile penetration of the rural areas of Zambia. This may allow small and medium-sized businesses in the telecommunication sector to become competitive against other established entities in the industry.

**Our comment**

The suspension of customs duty was intended to compensate the economic contraction that the sector experienced due to the COVID-19 pandemic. This measure was intended to encourage tourism by scaling up the equipment,

vehicle and properties required to entice and accommodate tourists. The extension of these measures is welcome as the industry is a key growth sector and is yet to fully recover from the impact of the COVID-19 pandemic.

**Our comment**

This measure is intended to extend the relief on medical suppliers critical to reducing the spread of COVID-19.

**Our comment**

This measure seeks to promote value addition to cassava, support out-grower schemes and enhance job creation.

**Our comment**

This measure intends to address the housing shortage in the country.

**What this means for you**

Real estate businesses or property developers may consider diversifying into the assembly, lease or sale of prefabricated buildings



**Proposed change**

Reduce customs duty to 15% from 25% on bicycles.

**Proposed change**

Reduce excise duty on methylated spirit to 60% from 125%.

**Proposed change**

Reinstate Excise Duty on Petrol and Diesel effective midnight 30 September.

**Proposed change**

Introduce surtax at the rate of 5% on selected imported PVC Pipes and HDPE pipes which are also locally produced.

**Our comment**

The measure aims to encourage an alternative mode of transport and promote healthy living.

**What this means for you**

Businesses may take advantage of the alternative mode of transport by investing in courier bicycles, mitigating the cost of fuel and maintenance.

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**Our comment**

This measure aims to harmonize excise duty rates for methylated spirit and duty on ethyl alcohol.

**What this means for you**

Consumer's price of methylated spirit will benefit from a reduction in the cost of the spirit.

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**COMPENSATING MEASURES**

**Our comment**

The proposal to reinstate the excise duty is a revenue increasing measure by the government and confirms

the austerity measures Government is expected to adhere to for the purposes of the IMF supported program.

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**Our comment**

This measure is intended to promote the local production of PVC (Polyvinyl Chloride) and HDPE (High-Density Polyethylene) pipes. The impact of the proposed change is the increase of the cost of imported pipes. The surtax is intended to advance the local manufacturing sector. This is a plausible change as it is a step in the right direction towards

moving the nation from being import-based to manufacturing based. However, administrative measures must be put in place to ensure the quality of the pipes produced locally is enhanced to meet the anticipated increase in customer base. Local entrepreneurs who produce PVC and HDPE pipes should perceive the change as an incentive for increased production.





**Proposed change**

Increase Carbon Emission Surtax on motor vehicles and motorcycles of various engine capacities by 10%.

**Proposed change**

Introduce Excise Duty at the rate of 15% on various plastic articles.

**Proposed change**

Introduce Selected Goods Surtax at the rate of 5 % on imported coal.

**Proposed change**

Increase surtax on imported floor and wall tiles to 20% from 5%.

**Proposed change**

Introduce Excise Duty at the rate of 145 % on electronic cigarettes and cartridges of heading 8543.

**Our comment**

This Measure is intended to increase domestic revenue and encourage the public to use energy-efficient vehicles. Government

should consider ringfencing revenue from green taxes to ensure that it's utilized in the promotion of green activities.

**Our comment**

This is yet another measure proposed in accordance with the Environmental Sustainability which is in accordance with one of the four strategic development goals underpinned by the Eighth National Development Plan. This is also a revenue-generating measure by the Government that will see an

increase in the Excise Duty tax base if corresponding administrative measures are properly instituted.

**What this means for you**

There will be a trickle-down effect on consumers to the extent that the shelf price of various plastic articles should be expected to increase to accommodate the 15% excise duty rate.

**Our comment**

This measure is intended to discourage the importation of coal. The impact of this change is that it will encourage the local mining

of coal, the increased local demand may in turn lead to the growth of the industry and consequently contribute to job creation.

**Our comment**

This measure is intended to not only promote the growth of the local ceramic industry but to provide opportunities for local entrepreneurs in the

industry.

The proposed change is welcome because it will surge local production and attract foreign direct investment.

**Our comment**

This is a seemingly punitive measure intended to reduce the use of electronic cigarettes. This appears to be in line with the strategic development area of the eighth national development plan to the

extent of Human and Social Development. The reduced use of cigarettes resulting from the introduction of this measure may be said to improve the health and livelihood of the citizenry.



**Proposed change**

Increase specific excise duty on cigarettes to ZMW361 per mille from ZMW355 per mille, as well as on unmanufactured tobacco, tobacco refuse, smoking tobacco whether containing tobacco substitutes and water pipe tobacco to ZMW361 per kg from ZMW355 per kg.

**Our comment**

This measure is intended to discourage the consumption of tobacco, which is harmful to health.

**Proposed change**

Provide for a licensing Committee in the Customs and Excise Act to review applications for clearing and forwarding licenses.

**Our comment**

The amendment will provide a legal framework on the licensing of Customs Agents, thereby enhancing transparency

in the administration of clearing licenses. Taxpayers will have appropriate transparency in the administration of clearing licenses.

**Proposed change**

Amend the Customs and Excise Act to change the wording in the definition of manufacture to include extraction of goods subject to Excise Duty.

**Our comment**

Previously, the regulations defined manufacturing in relation to goods liable to excise duty or surtax, other than imported goods to include the mixing, brewing, distilling, packaging, production or

refining of goods liable to excise duty or surtax. This amendment extends the definition of manufacture to include products that may not necessarily be a product of a manufacturing process.

**Proposed change**

Amend the Customs and Excise Act to remove licensing requirements for packaged water and pure fruit juices.

**Our comment**

Previously, there was a requirement for packaged water and pure juices to be licensed. This amendment removes that requirement.

**Proposed change**

Amend the Customs and Excise (General) Regulations, 2000 to remove supplies to organizations entitled to rebates.

**Our comment**

Previously, the Customs and Excise (General) Regulations, 2000 provided for rebates to approved organizations. However, these organizations also fell

under the duty drawback scheme. The regulations provide clarity over the need for the organizations only being part of the duty exemption and not the duty drawback.

**HOUSEKEEPING MEASURES**

**CUSTOMS**



### Proposed change

Amend the Customs and Excise Act to provide for the collection of Excise Duty charged on goods or services by any person whether that person is a licensed excise manufacturer or service provider.

### Proposed change

Amend the Customs and Excise Act to provide for the use of Electronic Fiscal Device in administering Local Excise Duty.

### Proposed change

Implement the Electronic Cargo Tracking System.

### Proposed change

Amend the Seventh Schedule to the Customs and Excise Act to include the definition of "Price". "Price", in relation to any services, means the aggregate of all amounts paid or payable by the buyer to or for the benefit of the seller in respect of the services".

### Our comment

The measure seeks to create a point of collection of Excise Duty on goods and services by any

person, whether that person is a licensed excise manufacturer or service provider.

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### Our comment

The use of Electronic Fiscal Devices (EFD) in Zambia was introduced in 2015 through an Act of Parliament. An EFD is a device used to generate or record tax invoices and other reports. It is capable of transmitting invoice data to the Revenue Authority in real-time. However, from its introduction, the EFD has not been used in the administering of local excise duty. This amendment introduces the use of EFDs in the manufacturing process to

capture the excise duty payable, thus easing the management of excise duty.

### What this means for you

Taxpayers should ensure that the manufacturing process software is integrated with the excise duty management system so that all processes are correctly captured and accounted for accordingly. Taxpayers should also ensure that the software used is approved by the ZRA as required by the Excise Duty Regulations.

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### Our comment

Electronic Cargo Tracking System (ECTS) is a web-based solution used to provide real-time monitoring of transit cargo

under Customs control. Taxpayers will be able to track their cargo in real-time, from the beginning till the end of the shipment.

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### Our comment

The amendment introduces the definition of price in relation to services.

**Proposed change**

Amend the Customs and Excise Act to increase the number of days between lodgment of an application for Advance Tariff Ruling (ATR) and the importation of goods subject to an ATR.

**Our comment**

The increase in the number of days between the lodgment of an application for an ATR and the importation of goods subject to an ATR will facilitate adequate documentary examination and consultation before

they are cleared. This measure will also decrease the demurrage charges faced by taxpayers upon the importation of goods. Importers should ensure that the ATR applications are lodged in time to avoid demurrage charges.

**Proposed change**

Amend the Customs and Excise Act to reduce the time between assessment and payment of duty and taxes on a bill of entry from five days to three days.

**Our comment**

Previously, the time between the assessment and payment of duty and taxes on a bill of entry was 5 days. The amendment seeks to reduce the time to 3 days. This will reduce the

congestion at the borders.

**What this means for you**

Taxpayers will be able to process their goods at the border within a shorter period.

**Proposed change**

Amend Statutory Instrument No 115 of 2020 (Ports of Entry and Routes Amendment order, 2020) in the Eighth Schedule to include Luangwa Border Post for the export of various goods specified in the Seventh Schedule.

**Our comment**

The amendment includes the use of the Luangwa Border Post as a customs port for the export of various goods specified in the Seventh Schedule.

**Proposed change**

Amend Regulation 51 (1) (c) by removing the wording that allows for the purchase of goods from duty-free shops by arriving passengers.

**Our comment**

This measure intends to restrict the provision of duty-free purchases to goods that will not be consumed in Zambia and curb the abuse of the facility.

**Proposed change**

Amend the Customs and Excise Act to include a provision that authorizes the Government to enter into an agreement with the Government of any other country or territory for the exchange of information on customs matters or for mutual assistance in customs matters with the objective of rendering reciprocal assistance.

**Our comment**

Customs Mutual Assistance Agreements (CMAA) are legally binding, government-to-government agreements that provide the legal framework for the exchange of information.

The agreements aid in the prevention, detection, and investigation of crimes associated with goods crossing international borders.



**Proposed change**

To provide relief to individuals, businesses and other entities following the adverse effects of COVID-19.

## 8. Introduction of Tax Amnesty

### Our comment

The Minister has proposed a Tax Amnesty program on all penalties and interest accumulated up to 30th September 2022. It will cover all tax types and will run from 1st October 2022 to 31st March 2023. All registered and non-compliant taxpayers

who meet the Amnesty requirements are eligible.

### What this means for you

The program intends to accord taxpayers an opportunity to normalize their tax records and ensure that they are tax compliant.

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