

Disclaimer

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgement. Neither EY Zambia nor any other member of the global EY organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

Contents

About EY Zambia	4
EY Global	5
A Global leader in professional services	5
Who we are	7
Quality as a constant	7
Budget Overview	9
The 2025 National Budget	10
Budget Tax Proposals 2025	15

About EY Zambia

EY Zambia is an integrated member of EY 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 in Zambia, joined 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

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets. Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate. Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

A Global leader in professional services

- The world's organizations face issues that are more complex and inter-connected than ever before. EY's globally integrated, multi-disciplinary network continues to lead through a rapidly evolving AI and technology-driven era. In the last decade, EY has experienced extraordinary success and market leading growth, doubling in size to achieve US\$50b in revenue.
- EY has built an even stronger organization by creating new ways to collaborate across EY's vast geographical footprint and will continue to invest in the market-leading sector capabilities organizations need to address their most pressing issues, augmented by the accelerated adoption of AI.
- EY is a global leader in assurance, tax, advisory and transaction services. Worldwide, our over 400,000 people are united by our shared values and an unwavering commitment to quality. With over 700 office locations in over 150 countries, we provide local knowledge with global experience. Our 28 Regions are grouped under three geographic Areas: Americas; Europe, Middle East, India and Africa (EMEIA); and Asia-Pacific. This structure is streamlined allowing us to make decisions quickly, execute our strategy and provide exceptional client service around the world.
- EY is committed to making a difference in the world through our dedication to offer exceptional professional services to our clients.





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 We combine our exceptional knowledge and experience with the people and technology platforms that make us an ideal partner for your tax-related needs.

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.



2025 National Budget Overview

The National Budget Address for the fiscal year 1st January 2025 to 31st December 2025 was delivered to the National Assembly on Friday 27th September 2024 by the Honourable Dr. Situmbeko Musokotwane, MP, Minister of Finance and National Planning.

The proposed 2025 Budget amounts to ZMW217.1 billion or 26.6% of GDP compared to the revised 2024 Budget of ZMW202.1 billion or 30.8% of GDP which was ZMW24.2 billion above the original Budget of ZMW177.9 billion or 27.8% of GDP suggesting a monetary increase of 7.4%. The 2025 Budget is premised on economic recovery and promoting growth to improve the livelihoods of the people, and is themed "Building resilience for inclusive growth and improved livelihoods". Consistent with the 2024 and

2023 Budgets, the 2025 National Budget is further premised on four thematic areas of the Eighth National Development Plan of economic transformation and job creation, human and social development, environment sustainability and good governance environment.

The 2025 Budget has been delivered at the backdrop of a severe drought that has unleashed major socio-economic challenges. The country and its productive resources are faced with severe extended hours of load shedding, inadequate access to safe and clean drinking water as well as food insecurity. Despite the challenges, the country has made notable economic gains and its gross domestic product is expected to grow by 2.3% in 2024 compared to 5.4% in 2023. It is against this background that the 2025 Budget has been prepared.

In 2025, the national budget will be financed as follows:

ZMW174.2 billion (2024; ZMW142bn)

Domestic revenue

ZMW15.4 billion (2024: ZMW16.3bn)

Domestic Financing

ZMW8.2 billion

(Revd 2024: ZMW7.8bn)

Foreign grants

ZMW19.4 billion

(Revd 2024: ZMW20.9bn)

Foreign Financing

Performance of 2024 National Budget

The 2024 Budget was focused on promoting economic growth through enhanced private sector investment, increase production and productivity and improve public service delivery through economic transformation and job creation, human and social development, environment sustainability and good governance environment, the four thematic areas of the Eighth National Development Plan. The Budget was themed "Unlocking Economic Potential".

The 2024 Budget, however, was revised on account of the severe drought that the country suffered from which significantly reduced agriculture production and electricity generation. Through the revised 2024 Budget, Government provided policy framework. fiscal incentives and budgetary allocation to respond to the deteriorating macroeconomic conditions as well as provide protection for the vulnerable households against effects of the drought while building resilience and sustainability through the implementation of early recovery interventions. In the revised 2024 Budget, Government also provided for external debt repayments following a debt deal reached earlier in 2024 with creditors to restructure the Eurobonds which was part of the agreement and this increased the nation's debt payment obligations in 2024 by ZMW12.6 billion.

In 2024, Government's main aim was to unlock the country's economic potential by addressing bottlenecks and take the country to a higher growth position and,

therefore, planned to pursue the following six (6) macroeconomic objectives:

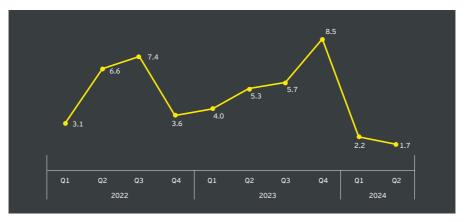
- i. Attain a real GDP growth rate of at least 4.8%:
- Reduce inflation to the 6-8% mediumterm target band;
- iii. Maintain international reserves above 3 months of import cover;
- iv. Increase domestic revenue to at least 22.0% of GDP:
- Reduce the fiscal deficit to 4.8% of GDP: and
- vi. Limit domestic borrowing to not more than 2.5% of GDP.

Despite the climatic and economic challenges, the country has experienced, the economy has continued to grow albeit at a slower pace and is estimated to grow by 2.3%, much lower than the 2024 Budget projected growth of 4.8% and slower than the preliminary estimated growth rate of 5.4% and 5.2% recorded in 2023 and 2022, respectively.

Preliminary estimates by Zambia Statistics Agency show that in the first quarter of 2024, the economy grew by 2.2%, a 1.8% decline in comparison to the same quarter of 2023 as shown in Figure 1. While

estimates for the second quarter of 2024 show that the economy grew by 1.7 % from 5.3 % in the second quarter of 2023. This represents 3.6 % decrease in growth compared to the same quarter in 2024.

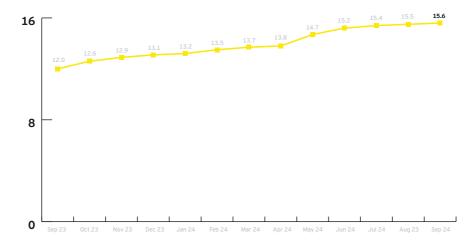
Figure 1: Quarterly GDP Growth Rates, First Quarter 2022 to Second Quarter 2023



Source: ZamStats, 2024

Growth in the first two quarters of 2024 was mainly driven by Information & communication (1.2 %), Construction (0.8 %), tourism (0.8 %), and financial and insurance activities (0.6 %). On the other hand, growth was weighted down by Agriculture, Forestry and Fishing (-0.6 %), Electricity along with Mining and quarrying (-0.4 %) and Wholesale and retail trade (-0.4 %).

Overall annual inflation has persistently been high and above the target range of 6-8% in 2024. In particular, annual inflation for September 2024 rose to 15.6% from 15.5% registered in August, 2024 suggesting that on average, prices of goods and services increased by 15.6% between September 2023 and September 2024 (see Figure 2). The main drivers of inflation have mainly been attributed to price movements of food items.



In the first half of 2024, the domestic currency weakened against major convertible currencies. In particular, the Kwacha weakened by 35.1% against the US dollar to average ZMW25.76 in the first half of 2024 compared to a depreciation of 9.2% in the corresponding period in 2023. This was on account of intermittent supply amid elevated and sustained demand mainly for procurement of petroleum products, acquiring raw materials, and purchase of farming inputs. Additionally, lower than expected copper production reduced foreign exchange inflow. The imbalance between the demand for foreign currency and its supply strained the Kwacha.

Further, the Kwacha also depreciated by 38.5%, 35.1% and 31.2% against the British pound, euro and South African rand to ZMW32.58, ZMW27.84 and ZMW1.38, respectively.

The country's international reserves increased to US\$3.9 billion (equivalent to 4.3 months of import cover) at end-June 2024 from US\$3.6 billion (equivalent to 3.9 months of import cover) at end-March 2024. This was mainly on account of the

US\$569.6 million disbursement by the International Monetary Fund under the Extended Credit Facility arrangement. Foreign exchange reserves in Zambia averaged US\$2.4 billion from 2010 until 2024, reaching an all time high of US\$3.94 billion in July of 2015 and a record low of US\$1.16 billion in February of 2021.

Budget performance during the first half of 2024 was satisfactory. Total revenues and grants collections were below the target by 1.2% while expenditures were also below target by 1.1%. Financing amounted to ZMW12.39 billion against the target of ZMW14.01 billion.

During the period under review, total collections of revenues and grants amounted to ZMW74.9 billion and were 1.2% below the target of ZMW75.8 billion. Tax revenue amounted to ZMW55.8 billion, non-tax revenues were ZMW17.4 billion while ZMW1.6 billion was received as Grants from cooperating partners. Specifically, tax revenue collection amounted to ZMW55.8 billion which was 4.7% below the target of ZMW58.6 billion. This performance was mainly due to lower-

than-expected collections under company tax and customs and excise duties. The low company tax collections were mainly on account of reduced payments made by mining companies as a result of increased operational costs due to insufficient energy supply. The underperformance under customs duty was attributed to a significant reduction in the importation of products such as worn clothing and trailers.

The lower tax revenue performance notwithstanding, Value Added Tax (VAT) collections amounted to ZMW19.2 billion which were 11.7% above the target of ZMW17.2 billion. The overperformance was mostly attributed to higher import VAT collections for petroleum products, dump trucks and parts of machinery for crushing, grinding, mixing earth and other mineral substances.

With regard to non-tax revenue, collections amounted to ZMW17.4 billion and were 11.6% above the target of ZMW15.6 billion. The higher outturn was mainly attributed to the receipt of a dividend from Bank of Zambia amounting to ZMW6.5 billion, exceptional revenue from ZANACO and forfeited funds amounting to ZMW1.5 billion. The collection of non-tax revenue was also boosted by higher-than- projected performance under Road Tolls and Road User chargers and fees.

Mineral Royalty collections at ZMW5.2 billion were 2.8% above the target of ZMW5.1 billion. This performance was attributed to higher declaration by some mines as a result of improved copper prices on the international market and increased mineral production.

During the first half of 2024, Grant inflows from cooperating partners amounted to ZMW1.6 billion and were 1.3% above the target of ZMW1.58 billion. This performance was mainly due to increased remittances towards social protection programmes in response to the drought.

Total expenditure including amortization, during the first half of 2024, amounted to ZMW88.76 billion and were 1.1 % below the budgetary target of ZMW89.77 billion. Of the total releases, ZMW84.49 billion was domestically financed while ZMW4.27 billion was foreign financed in the form of grants from Co-operating Partners and disbursements for foreign financed projects.

In summary, the total expenditure for 2024 is projected to close at ZMW198.6 billion which is 11.6% above the approved 2024 Budget but below the revised 2024 Budget. While revenues and grants are estimated to close the year at ZMW148.1 billion which is 2.5% above the target of ZMW144.5 billion. The 2024 Budget deficit is now expected to be 6.4% of GDP compared to the initial projection of 4.8% of GDP on account of the realignment of the budget because of the drought. According the Minister of Finance and National Planning, the favourable revenue performance underscores Government's efforts to enhance domestic resource mobilisation and grant financing, to support Government expenditure.

In 2024, the stock of external debt slightly increased while domestic debt reduced. The stock of outstanding Government bills reduced. In particular, the central Government's external debt stock excluding publicly guaranteed external debt, increased by 4.1% to US\$15.17 billion from US\$14.57 billion at end-December, 2023. The increase was mainly driven by new disbursements from multilateral creditors and continued accumulation of arrears. The Euro-bonds and non-multilateral debt stocks reduced due to debt service payments made on



Eurobonds, exchange rate fluctuations on non-US dollar denominated facilities as well as data reconciliation with creditors. Total publicly guaranteed external debt, however, declined by 1.3% to US\$1.39 billion at end-June 2023 from US\$1.41 billion at end-December 2023 on account of debt service payments by some guaranteed entities.

Regarding the stock of Treasury bills and Government bonds, they reduced by 3.1% to ZMW 225.5 billion as at end-June 2024 from ZMW 232.6 billion as at end-December 2023. The reduction has been attributed to tight money market liquidity conditions, which constrained commercial banks' lending to the Government.

The overall financial performance and condition of the banking sector continues to be resilient, supported by adequate capital, liquidity buffers and good asset quality. Commercial banks' average nominal lending rates rose to 28.7% in August 2024 from 26.6%, consistent with

the upward adjustment in Bank of Zambia Monetary Policy Rate. However, credit to the private sector has been expanding, growing by 36.9% in July 2024 compared to 34.2% in July 2023.

2024 has been a challenging year for the country because of the severe drought. Economic growth is expected to remain subdued at 2.3%, largely due to unfavourable performance in the agriculture and energy sectors due to the drought. In the agriculture sector, there was reduction in the production of most crops because severe drought experienced in the first and second quarters of the agriculture season due to the El Nino phenomenon in most parts of the country except Northern, Luapula and Muchinga provinces. The effects of the drought will also extend to the monetary sector and external sectors through higher food prices and inflation, and pressure on accumulation of reserves in response to higher grain imports.



2025 National Budget

The 2025 National Budget has been prepared against slowed down global and domestic economic growth.

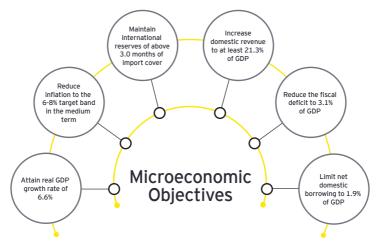
The 2025 National Budget has been prepared against sluggish and slowed down global and domestic economic growth as well as the devastating drought the country faced. In 2024, global growth is estimated to slow down to 3.2% from 3.3% in 2023. The domestic economy is projected to slow down to 2.3% in 2024 compared to growth of 5.4% in 2023. Global growth prospects remain sluggish mainly due to geopolitical tensions, climate change events, and relatively tight financial conditions.

Commodity prices trended upwards in the first half of this year. For example, crude oil prices averaged US\$84.7 per barrel, 9.0% higher than the average of US\$77.7 per barrel in the corresponding period of 2023. The increase in oil prices was mainly due to production cuts by the Organization of the Petroleum Exporting Countries (OPEC), Russia and other non-OPEC exporters.

Copper prices in the first half of 2024 averaged US \$9,097 per Mt, 4.5% higher compared to an average of US \$8,705 per Mt in the first half of 2023. Copper prices were lifted by tightening supply and increasing demand from the transition to renewable energy.

Despite the devastation caused by the drought, Zambia's economy has been resilient and has huge potential to grow owing to its abundant natural resources. However, there is need to build economic resilience and improve the livelihoods of the citizenry.

In view of the foregoing, in 2025, Government will pursue the following macroeconomic objectives and hereunder are our commentary:



► Attain real GDP growth rate of 6.6% (2024: at least 4.8%)

Commentary: In 2024, the economy is projected to grow by 2.3% against the 2024 Budget estimate of 4.8% with the slow down attributed to the impact of drought which has significantly reduced agriculture production and electricity generation. Hydroelectricity generation challenges are expected to persist in the short term even with good rainfall and, therefore, will have an impact on the economic recovery of the country. The 6.6% target of real GDP growth in 2025 which is higher than the 2024 target of 4.8% may, therefore, not be attained. However, with favourable distribution of farmer inputs under the Farmer Input Supply Programme (FISP), and good rainfall patterns and weather conditions for the 2024/2025 season could contribute to the recovery of the agriculture sector but may not be sufficient to attain the objective of achieving the target real GDP growth rate.

▶ Reduce inflation to the 6 - 8% target band in the medium term

Commentary: In the first half 2024, inflation, has persistently been high averaging above 14% which is way above the target band of 6-8%. In particular, annual inflation for September 2024 rose to 15.6% suggesting that on average, prices of goods and services increased by 15.6% between September 2023 and September 2024. This has mainly been on account of increased food prices.

Our expectation is that overall annual inflation in 2025 will be in double digits and thus above the upper bound of the 6 - 8 % target band but will drift to within the bound target in the medium-term. Elevated domestic food prices, persistently high global fuel prices and tight global financial conditions will be the major drivers of inflation outlook in 2025. These factors as well as higher energy prices due to the prolonged Russia-Ukraine war remain key upside risks and are expected to persist in 2025.

Maintain international reserves above 3.0 months of import cover (2024: of above 3 Months)

Commentary: The country's international reserves was equivalent to 4.3 months of import cover at end-June 2024 at US\$3.9 billion from US\$2.9 billion (equivalent to 3.2 months of import cover) at end-August 2023. This is on target of above 3 months of import cover for 2024.

The objective of maintaining international reserves of above 3.0 months of import cover is likely to be met in 2025 particularly that the country is on an International Monetary Fund Extended Credit Facility arrangement.

▶ Increase domestic revenue to at least 21.3% of GDP (2024; at least 22%)

Commentary: In 2024, revenues and grants are estimated to close the year at ZMW148.1 billion which is 2.5% above the target of ZMW144.5 billion. The 2024 Budget deficit is now expected to be 6.4% of GDP compared to the initial projection of 4.8% of GDP on account of the realignment of the budget because of the drought.

▶ Increase domestic revenue to at least 21.3% of GDP (2024; at least 22%)

However, in the first half of 2024, total collections of revenues and grants amounted to ZMW74.9 billion and were 1.2% below the target of ZMW75.8 billion. Tax revenue amounted to ZMW55.8 billion, non-tax revenues were ZMW17.4 billion while ZMW1.6 billion was received as Grants from cooperating partners. Specifically, tax revenue collection amounted to ZMW55.8 billion which was 4.7% below the target of ZMW58.6 billion. While non-tax revenue collections amounted to ZMW17.4 billion and were 11.6% above the target of ZMW15.6 billion. The higher outturn was mainly attributed to the receipt of a dividend from Bank of Zambia amounting to ZMW6.5 billion, exceptional revenue from ZANACO and forfeited funds amounting to ZMW1.5 billion. We agree with the reduced projections for domestic revenue collections in 2025 as we foresee slow economic recovery from drought devastation as well as volatile prices of commodities, alongside disruptions in supply chain risks persisting in the short to medium term.

▶ Reduce fiscal deficit to 3.1% of GDP (2024: 4.8%)

Commentary: In 2024, the target for budget deficit was at 4.8% of GDP and projections are that the year-end deficit is going to be above target at 6.4% of GDP. The higher budget deficit outturn is on account of the realignment of the budget because of the drought. We expect Government social expenditures to remain high so as to cushion the citizenry especially the vulnerable against the effects of drought and, therefore, the 2025 3.1% fiscal deficit target is likely not to be met.

▶ Limit net domestic borrowing to 1.9% of GDP (2024: no more than 2.5%)

Commentary: The stock of Treasury bills and Government bonds reduced by 3.1% to ZMW225.5 billion at end-June 2024 from ZMW232.6 billion at end-December 2023 and the reduction was attributed mostly to tight money market liquidity conditions which constrained commercial banks' lending to Government. The objective of limiting net domestic borrowing to 1.9% may be attainable although challenging in view of increased social spending. The attainment of the objective is conditional on bilateral, multilateral and other cooperating partners fulfilling their grants and foreign financing obligations as envisioned in the 2025 budget resource envelope.

2025 National Budget Sector Policies

To achieve the macroeconomic objectives outlined in the preceding section, Government has proposed a number of 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

Agriculture, Fisheries and Livestock

- ▶ Government launched the Comprehensive Agriculture Transformation Support Programme (CATSP) in July this year. The Programme has seven main components, namely; irrigation, mechanisation financing, farm blocks, extension services, input support, agro- processing, and infrastructure development. The objective is to increase food security, improve nutrition, create jobs, and increase agricultural exports.
- ► In 2025, Government will spend ZMW15.4 billion on various interventions in the agriculture, fisheries and livestock sector in line with the Comprehensive Agriculture Transformation Support Programme.
- To reduce over reliance on rainfed agriculture, we will continue to promote irrigation development Government will embark on the construction of five new dams, namely; Chinkhombe in Katete, Kashambana in Nkeyema, Mulemba in Kalomo, Namakala in Mulobezi, and Pemba in Pemba districts.
- ▶ With regard to Farmer Input Support Programme (FISP), Government will in 2025 fully migrate the FISP from Direct Input Support to e-voucher modality, which is more flexible and effective. Under the e-voucher, Government will leverage on technology to eliminate ghost farmers, as well as promote efficiency and real time settlement of agro-dealer payments. In 2025, Government has allocated ZMW9.3 billion for the Farmer Input Support Programme to benefit over 1 million farmers. To ensure food security, Government has proposed to increase the allocation for strategic food reserves to ZMW2.4 billion from ZMW1.7 billion in 2024.

Sector Policies

Agriculture, Fisheries and Livestock

- ▶ To increase the area under agricultural production, Government has continued with farm block development at Luena, Nansanga and Shikabeta. At Luena, 275 hectares is under avocado production and the first harvest is expected next month. In addition, an anchor farm has commenced maize production. A total of 50 kilometres of road network at Nansanga and 30 kilometres at Luena farm blocks have been completed.
- ► Further, Government has demarcated 350 farms and approved 36 co-ventures at Kalumwange, Kalungwishi, Luena, Luswishi, Manshya, Musokotwane, Shikabeta, and Solwezi farm blocks.
- ► To provide improved technologies and advisory services to farmers and other stakeholders by the Zambia Agriculture Research Institute, Government has proposed to introduce licensing fees for crop variety, basic and certified seed sales, and parental lines sales.
- ▶ In the livestock sub-sector, in 2025, Government will continue to undertake animal disease control and prevention measures through vaccinations, the construction of biosecurity checkpoints, quarantine stations and operationalisation of regional and district laboratories.
- ▶ To increase livestock production to seven million by 2027 and increase the number of households engaged in livestock farming, Government will enhance stocking and restocking programmes, and has targeted to distribute 6,000 heifers, as well as 300 superior bulls for both artificial insemination and natural mating amongst the community herds.
- ▶ In the fisheries sub-sector, to ensure all year-round production of fingerlings at Government fish farms, greenhouses are being constructed at Chadiza, Kaoma, Mwenda, Mwinilunga and Sinda fish farms. To further increase fingerling production, three hatcheries are being established in Kasempa, Mushindano and Samfwa aqua parks, bringing the total to 84 in 2025. This will increase fingerling production to 460 million in 2025 from the current 433.4 million.

Manufacturing

- ▶ To support the growth of the sector, Government has continued to develop Multi-Facility Economic Zones (MFEZs) and special economic zones. So far this year, the Lusaka South Multi-Facility Economic Zone has secured US \$110 million in investment from 15 companies in addition to 30 fully operational companies, which have created about 16,000 jobs for our people. Further, 21 companies are at construction stage and have created 8,450 jobs. The Jiangxi Multi- Facility Economic Zone in Chibombo is also operational.
- ➤ To support the sector further, Government is in the process of establishing special economic zones for crop production in the districts of Kafulafuta, Lufwanyama, Masaiti, Mpongwe, and Ngabwe, as well as for beef in the Kafue Flats.

Sector Policies

Manufacturing

- ▶ Further, the Zambia-China Mulungushi Textiles was finally reopened in August this year with a planned investment of US \$170 million and the company is expected to create more than 500 jobs. The Zambia-China Mulungushi Textiles will be developed in four phases: fabric printing, solar panel assembly, spinning facility, and 20-megawatt solar power plant installation. The cotton value chain will be developed, involving small-scale farmers through an out-grower scheme. The company has received machines and equipment to complete the first three phases this year.
- ▶ The country has become a net exporter of Compound-D fertiliser, exporting over 19,000 metric tonnes in 2023. This year, it plans to export over 91,000 metric tonnes. Additionally, construction of a 300,000 metric tonnes per annum urea plant is expected to be commissioned by early 2025, ensuring Zambia's self- sufficiency in infertilizer production and creating 2,000 additional jobs.
- ► To support local industries and encourage further investments in the manufacturing sector, Government has proposed to introduce and revise upwards Selected Goods Surtax applicable on imports of specified products which are locally manufactured.

Small and Medium Enterprise Development

- ▶ In 2025, Government will continue supporting SMEs for national development by facilitating access to affordable financing and infrastructure provision through programs like the Citizens Economic Empowerment Fund and Women and Youth Empowerment Fund under the Constituency Development Fund.
- ► In 2024, Government proposes to allocate ZMW391.9 million to the Citizens Economic Empowerment Commission for citizen economic empowerment programmes to promote entrepreneurship.
- ▶ Government boosted funding to the Zambia Credit Guarantee Scheme Limited from K150 million in 2023 to K386 million in 2024 in an effort to better address the difficulties SMEs encounter in obtaining cheap financing. In 2025, the allocation to the Scheme has been increased to ZMW851.7 million from ZMW386.0 million in 2024. This increase will enable more of our small and medium enterprises to access affordable financing. The allocation will also support implementation of the Sustainable Agriculture Financing Facility programme..
- ▶ In an effort to lessen the effects of the drought on the energy and agricultural sectors, the Bank of Zambia will soon launch an assistance facility. Funds will be provided to eligible financial institutions for onlending at concessional interest rates to individuals and non-financial companies. Furthermore, the Bank of Zambia has been working with the private sector to create a credit guarantee program that will allow micro, small, and medium-sized businesses to access affordable financing.

Economic Sector	Sector Policies
Small and Medium Enterprise Development	Government has constructed industrial yards in various provinces to support SME operations, with 108 SMEs and 38 cooperatives already operating. The second phase, set to begin in 2025, will focus on constructing industrial yards in Central, Muchinga, and Southern provinces.
Tourism	▶ In 2025, Government has allocated ZMW1.29 billion to the tourism sector for the development of tourism infrastructure, marketing, wildlife management, and development of tourism products, among others.
	➤ To conserve biodiversity and promote integrated transboundary management, Government will continue to collaborate with neighboring countries in the development of transfrontier conservation areas. So far, the Kavango-Zambezi Transfrontier Conservation Area has been implemented while agreements with Malawi, Mozambique and Zimbabwe have been signed. These agreements will facilitate the development of infrastructure to ease movement of tourists across the borders.
	► Government has secured financing amounting to US\$100 million under the Green, Resilient and Transformational Tourism Development Project to develop tourism facilitation infrastructure at Kasaba Bay, Liuwa National Park, and the source of the Zambezi River. Other developments will include the improvement of air and road connectivity to south west tourism circuit of Liuwa, Sioma-Ngwezi, Livingstone, Lower Zambezi, and Kafue National Parks.
	▶ In 2023, Government secured financing amounting to US\$100 million for the Green, Resilient and Transformational Tourism Development Project will support the development of tourism infrastructure at Kasaba Bay, Liuwa National Park, and the source of the Zambezi River and the Project has commenced. Feasibility studies that will inform the planned infrastructure development in the project areas are underway and construction works are scheduled to commence in 2025.
Mining	▶ Government has prioritised reviving the Mining industry since 2021 by maintaining a predictable and stable fiscal policy environment, among others. The strategy has involved reopening mining companies, including Konkola Copper Mines and Mopani Copper Mines, which were previously locked up in legal disputes, thereby reviving their operations.

Economic Sector	Sector Policies
Mining	To support the sector: ■ Government launched a country-wide high resolution aerial geophysical survey in 2024. The survey will generate reliable and updated geological information which will support investment in greenfield projects and expansion of brownfield projects. In 2025, Government proposes to spend a further ZMW364 million against ZMW160.0 million provided for in 2024 on geological mapping. ■ Government plans to promote explorations of hydrocarbons such as oil and gas to help unleash areas of new investments for the country. ■ Government plans to formalize gold trading this year by establishing gold marketing centers in Mumbwa and Rufunsa districts, with details to be provided by the Ministry of Mines.
Energy	 Government is addressing the current power deficit through a Multi-Pronged Approach: Importing power from Mozambique, Namibia, South Africa, and Zimbabwe. Promoting off-grid solutions like industrial generators and solar systems in markets, public hospitals, and schools. Encouraging construction of an additional thermal power plant in Maamba to double capacity to 600 megawatts by next year. Investment in solar power stations at strategic locations; Chisamba (100MW), Choma (50MW), Kasama (100MW), and Kariba (100MW). Government: Is implementing the net-metering initiative to encourage consumers to generate power and supply excess to the national grid. Iaunched the Energy Single Licensing System in June this year to streamline the licensing process aimed at reducing the time applicants
	take to obtain licenses and permits. Will continue to implement the Rural Electrification Programme, through which already 131 Grid Development and 38 Off-Grid Renewable Energy Projects have been completed, with 12 mini grids operating and 15 new solar projects expected by end of the year.
Transport and Logistics	 In 2025 Government will continue to invest and encourage investment in the construction, rehabilitation and maintenance of road, rail, aviation and maritime infrastructure. The construction of the Chinsali- Nakonde Road, spanning 210 kilometers, is at 98% completion and will be completed by the end of this year. Government has secured funding from Cooperating Partners for the rehabilitation of 162 kilometers of the Chinsali-Mpika Road. The Transport Corridor for Economic Resilience Project funded by the World Bank will rehabilitate 238 kilometers of road network from Serenje to Mpika and works are expected to commence in 2025.

Sector Policies

Transport and Logistics

- ► Government has secured a US\$458 million grant financing from the United States of America Millennium Challenge Corporation for the rehabilitation and maintenance of two roads, Chipata- Lundazi-Old Magodi and Landless- Mumbwa. The project is set to commence construction in 2025, following approval by the Corporation's Board.
- ► Government has provided ZMW11.98 billion in 2025 for road infrastructure out of which ZMW271 million is for rural roads. This provision is for the rehabilitation and upgrading of the following on going roads and new ones, among others:
 - a. 71km Monze-Niko Road which commenced in 2023 and is scheduled to be completed in 2025;
 - 87Km Lusaka-Mongu Road from Tateyoyo Gate to Katunda/ Lukulu Junction which commenced in August this year and is scheduled to be completed in 2026; and
 - 88Km Batoka-Maamba Road which commenced in March this year and is scheduled to be in 2026.
- ► Government is upgrading and rehabilitation 22 Km of urban roads in Lusaka and Sinazongwe this year and in 2025 will expand to include urban roads in Choma, Kitwe, Luanshya, Lusaka, Mazabuka, Ndola, Sinazongwe and Solwezi.
- ▶ Through the Public-Private Partnership Model, Government is upgrading the Lusaka-Ndola Road to dual carriageway including the rehabilitation of Masangano-Fisenge-Luanshya Road and the works are progressing very well and are earmarked to be completed in 2026 ahead of schedule. So far, under the Model, the Chingola-Kasumbalesa Road has been completed and is operational. In addition, works on the Katete-Chanida Road, Mufulira-Mokambo Road and the Ndola-Mufulira Road and access road to Sakania are on course. Further, mobilisation and early works on the 85 Km of the Lumwana-Kambimba Road in Northwestern Province will commence in the last quarter of this year. Through the Model, Government has so far signed seven projects with a total coverage of 838 Km.
- ► In the rail sub-sector, Government has signed a Memorandum of Understanding with China and Tanzania to rehabilitate and modernise TAZARA Railway infrastructure and equipment with the aim of increasing tonnage to 2.5 million metric tonnes from half a million metric tonnes annually.
- ► Government plans to expedite acquisition of grant financing for longterm railway system rehabilitation from Chingola to Livingstone, and is in discussions with Cooperating Partners for potential support with rail wagons and locomotives.

Sector Policies

Social Protection

- ▶ In 2025, Government will continue to implement social protection programmes such as the Social Cash Transfer, Food Security Park and Keeping Girls in School. In addition, Government introduced the Cash for Work this year to support people in the 2024 drought-stricken areas. The total number of beneficiaries under the various social protection interventions as at August-2024 stood at 2,515,671 households with a projected impact on 13.9 million people. Government will spend ZMW16.2 billion on social protection in 2025 out of which ZMW8.3 billion is for Social Cash Transfer and Drought Emergency Social Cash Transfer programmes and ZMW2.0 billion is for the Cash for Work programme.
- ▶ Under the regular social cash transfer, the number of beneficiary households increased to 1.3 million at end-August 2024 from 1.1 million in 2023. To cushion beneficiary households from the effects of the drought, the regular Social Cash Transfer beneficiary households are now receiving an additional ZMW200 per month for a period of 12 months from June this year.
- ► Government is further providing the Drought Emergency Social Cash Transfer of ZMW400 per month to 952,570 households, for a period of 12 months effect June this year, that have become vulnerable as a result of crop failure and are not on the regular Social Cash Transfer Programme.
- Government is implementing the Cash for Work programme in response to the drought experienced in the 2023/2024 farming season and the programme is being implemented in 123 constituencies in 87 districts targeting vulnerable households not covered by the Social Cash Transfer and Emergency Social Cash Transfer programmes.
- Under the Food Security Pack Programme, Government has provided ZMW1.2 billion for it in 2025 to support the vulnerable but viable farmers
- ▶ Government plans to continue educating girls and empowering women through the Girls Education and Women's Empowerment and Livelihoods Project, and will expand the school component to support 262,444 girls and scaling up the women's empowerment component to all 116 districts covering 200,000.
- ▶ In 2025, Government aims to be current with payments and reduce waiting times for pensioners under the Public Service Pension Fund and Local Authorities Superannuation Fund by dismantling pension arears and implementing partial withdrawal of pension benefits through the National Pension Scheme Authority. It has, therefore, increased the allocation to the Public Service Pensions Fund to ZMW4.2 billion in 2025 from ZMW3.9 billion this year and has further allocated ZMW400 million to the Local Authorities Superannuation Fund.

Sector Policies

Education and Skills Development

- ▶ In 2025, Government will continue to improve access to quality education through infrastructure development, teacher recruitment, curriculum development and provision of teaching requisites.

 Government proposes to spend ZMW16.2 billion or 14.5% of the total Budget on education related expenses in 2025 out of which ZMW2.6 billion has been earmarked for school and university infrastructure.
- ➤ To further improve the teacher-pupil ratio and the quality of education, Government in 2024 is recruiting 4,200 teachers and an additional 2,000 in 2025. A budgetary allocation of ZMW80.3 million has been made in the 2025 budget for this purpose.
- ► Further, Government is constructing 317 secondary schools, with 151 completed and 166 scheduled for completion by 2025. In addition, 480 early childhood education centers are being built and are scheduled to be completed by the end of 2025. Government has allocated ZMW1.6 billion for construction of 120 secondary schools.
- ➤ To improve the learning environment for our learners, Government has continued to procure desks in public schools. So far, 812,598 desks have been procured, out of which 712,562, or 87%, were acquired using CDF.
- ► Further, to keep learners in school and improve learning outcomes, the allocation to the School Feeding Programme in 2025 has been creased to ZMW534.4 million.
- ➤ To implement the new national education curriculum, which will promote life-long learning, entrepreneurship, and practical skills required by industry, Government will spend ZMW150.0 million in 2025.
- ▶ To address the challenges of accommodation in public universities, Government is constructing 58 hostel blocks across eight public universities, with a total bed capacity of 9,280. ZMW300.5 million has been provided for in the 2025 budget for the completion of stalled hostel projects at the Copperbelt University, the University of Zambia and other public universities. To improve the learning environment, Government is constructing additional university infrastructure at Chalimbana, Mukuba, Nkrumah and Palabana universities.
- ➤ To ensure that technical education is accessible by the citizenry, Government will complete the construction of Mumbwa Polytechnic and Evelyn Hone College student hostels. In addition, Government in partnership with Kagem Mining has commenced the construction of a Polytechnic in Lufwanyama.

Health

Government will in 2025 continue providing quality and affordable healthcare services by strengthening the health system, recruiting health personnel, providing drugs and medical supplies, as well as developing infrastructure, especially in rural areas.

Sector Policies

Health

- ▶ To this end, Government intends to spend ZMW23.2 billion or 10.7% of the budget on health. Of this amount, ZMW5.0 billion is for the procurement of medicines and medical supplies while ZMW718.2 million is for the procurement of medical equipment. Further, ZMW1.9 billion has been allocated for various health infrastructure.
- ▶ In 2024, Government has continued to recruit health workers with 4,000 more workers earmarked to be recruited and an additional 2,000 in 2025, bringing the cumulative total to 20,276 in the last three years. These recruitments have helped ensure quality healthcare in all health facilities and reduced maternal and child mortality, with 82% of deliveries conducted by skilled personnel. An allocation of ZMW156.9 million has been made in the 2025 budget for the recruitment of 2,000 frontline health personnel. A further allocation of ZMW120.0 million has been made for continued improvement of the healthcare management information system.
- ▶ In 2024, Government has completed the construction of seven Level-1 Hospitals in Chililabombwe, Kitwe, Mambwe, Mwansabombwe, Nchelenge, and Ndola districts. Government has further completed constructing 279 health facilities across the country, out of which, 164 were constructed using CDF.
- ▶ Government is construction an 800-bed space King Salman Bin Abdulaziz Specialised Hospital for women and children which is 70% complete. The hospital is scheduled for completion in 2025. In addition, the Government has commenced the construction of the Ndola Cancer Treatment Centre and is also modernising the Cancer Diseases Hospital in Lusaka. Construction of the cancer treatment centre in Livingstone will commence before the end of this year.
- to improve maternal healthcare, Government has constructed 123 maternity annexes across the country. Of these, 82 have been constructed under CDF. An additional 30 annexes will be constructed in 2025 using CDF.



2025 National Budget Summary

In 2025, the Zambian Government proposes to spend a total of ZMW217.1 billion or 26.6% of GDP compared to the revised ZMW202.1 billion spent in 2024 which was equivalent to 30.8% of GDP. Thus, the 2025 National Budget has increased by ZMW15 billion, translating into a marginal increase equivalent to 7.4% of the revised 2024 Budget. Figures 1 and 2 provide the overview of the 2025 National Budget and compares it to the 2024 and 2023 National Budgets, respectively.

Government proposes to increase spending in only three (3) functions by Government classification, maintain in one, recreation, culture and religion function, and reduce in the rest of the functions. In particular, Government proposes to increase spending in general public services on account of increase in external debt (Interest and Principal) servicing obligations as reflected by an increase in the proposed budgetary allocation to ZMW16.66 billion in 2025 from ZMW6.0 billion in 2024. This is because of the debt restructuring agreement reached with Eurobond holders in addition to the Official Creditor Committee that was reached earlier in 2023 both of which have led to restructuring and rescheduling of some debt repayments to much later date. In the last three years, Government has been servicing debt to multilateral debtors only but now debt servicing will be extended to all creditors including Eurobond holders post debt restructuring. In 2025, the general public services function will only account for 34.0% as a share of the total budget compared to 33.1% and to 39.5 % as shares of the total budgets for 2024 and 2023, respectively. Of the ZMW73.81 billion expenditure on the general public services function, ZMW37.3 billion will go towards domestic debt servicing while ZMW16.66 billion will go towards servicing external debt (Interest and Principal) and ZMW5.67 billion will go towards dismantling of arrears owed to various suppliers of works, goods and services.

Government proposes to marginally increase economic affairs spending to 22.4% as a share of the total budget for 2025 to support its agenda of transforming the economy, build economic and social resilience and construct the country's social and economic

infrastructure. Of the total amount for the function, ZMW15.4 billion has been allocated for various interventions in the agriculture, fisheries and livestock sub-sectors in line with the Comprehensive Agriculture Transformation Support Programme. ZMW11.98 billion has been allocated for road infrastructure while ZMW5.63 billion will be for the enhanced Constituency Development Fund. See Figure 1 for the budgetary allocations to the various functions of expenditure.

In addition, Government proposes to substantially increase spending in the social protection function on account of increase in social spending to the protect the vulnerable in society and those who were affected by the devastating drought in the 84 districts of the country. Government is implementing a number of social protection programmes and these include the normal Social Cash Transfer Programme (SCT), the Drought Emergency Social Cash Transfer Programme (DESCT) and the ZMW2.0 billion Cash for Work Programme. In total, Government will spend ZMW16.2 billion on the social protection out of which ZMW8.3 billion is on SCT and the DESCT.

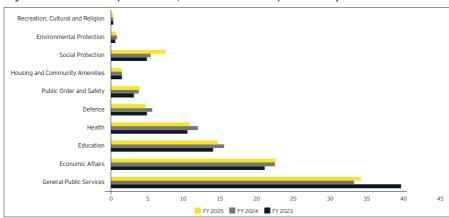


Figure 2: Zambia's Proposed 2025, 2024 and 2023 Expenditure by Function





In 2025, the General Public Services Function will receive a total of ZMW73.82 billion from ZMW58.9 billion in 2024 and from ZMW66.2 billion in 2023.

As a share of the total budget, there has been an increase in expenditure on general public services from 33.1% in 2024 to 34.0% in 2025. Out of the total General Public Services allocation of ZMW78.82 billion, ZMW37.3 billion is for domestic debt servicing, ZMW16.66 billion is for external debt servicing and ZMW5.67 billion is for dismantling domestic arrears bringing the total for debt servicing and dismantling of domestic arrears to ZMW 59.63 billion in 2025 from ZMW45.8 billion in 2024.

According to the Country's Public Sector Debt Summary Reports published by the Ministry of Finance and National Planning, Zambia's domestic arrears increased between December 2021 and September 2023, despite the government's efforts to dismantle arrears in line with its strategy. The stock of domestic arrears rose from US\$2.82 billion at the end of 2021 to US\$3.75 billion by June 2023. In Kwacha terms, arrears as of September 2023 stood at ZMW91.18 billion, marking a 17.53% increase from the ZMW77.58 billion recorded at the end of 2022.

A total of ZMW6.8 billion, the entire allocation provided for in the 2023 budget, was disbursed for the clearance of arrears. However, the continued rise in arrears is attributed to new accumulations and upward adjustments, particularly in the fuel and electricity sectors. These adjustments were mainly due to the depreciation of the Kwacha, which fell from an average rate of ZMW16.91/US\$ in 2022 to ZMW20.77/US\$ by September 2023, representing a 22.83% depreciation. Furthermore, the verification of new invoices related to fuel arrears contributed to the reported increase.

This situation reflects the challenges posed by the exchange rate fluctuations and increased debt burden particularly in the energy sector. It is likely that the allocation for domestic debt servicing, particularly domestic arrears may not be adequate leading to further accumulation and pressure on local suppliers to government who either have to discount invoices at very high interest or face significant liquidity challenges.

Clearly, there has been a substantial increase in resources allocated to debt servicing and dismantling of arrears in the 2025 budget from a total of ZMW45.8 billion in 2024 to a total of ZMW59.63 billion in 2025 representing a 30.2% increase. The increase has seen foreign debt servicing being allocated ZMW16.66 billion in 2025 as compared to ZMW6.0 billion in 2024 showing an increase in external debt interest and principal payments following the debt restructuring agreement reached by the Zambian Government and external bilateral debtors and the eminent agreement on the other portion of the external debt to be reached between the Zambian Government and the Eurobond holders in addition to the Official Creditor Committee that was reached earlier in 2023 both of which have led to restructuring and rescheduling of some debt repayments to much later date. Government is now obliged to service its multilateral debtors as well as the Eurobond holders post debt restructuring.

Economic Affairs Function received a marginal increase in allocation of 22.4% in 2025 from 22.3% in 2024 as a share of the total 2025 and 2024 budgets, respectively and in absolute terms has been allocated ZMW48.7 billion in 2025 and received ZMW39.8 billion in 2024, respectively. The increase in allocation for the function in 2025 is mainly on account of the allocation to various interventions in the agriculture. fisheries and livestock sub - sectors in line with the Comprehensive Agriculture Transformation Support Programme which received an allocation of ZMW15.4 billion. Further, road infrastructure received a notable incremental allocation of ZMW11.98 billion in 2025 from ZMW8.34 billion in 2024 while the enhanced Constituency Development Fund received an allocation of ZMW5.63 billion in 2025 from ZMW3.8 billion in 2024. Other programmes under the Function in the

2025 Budget include Tourism Sub - Sector, provincial aerodromes infrastructure, credit guarantee scheme and aerial geological and geophysical mapping with allocations of ZMW1.29 billion, ZMW700.7 million, ZMW851.7 million and ZMW364 million, respectively.

The allocations to the Economic Affairs Function reflect Government's desire to transform the livelihoods of the citizenly especially with regard to increasing incomes and reducing inequalities through economic transformation and job creation. The expenditure lines for 2025 reflect that desire and are, therefore, on interventions which may address the constraints facing the economy and build a resilient and strong economy.

In the Health Function, the budgetary allocation as a share of the total budget reduced to 10.7% in 2025 from 11.8% in 2024 and in absolute terms increased to ZMW23.17 billion in 2025 from ZMW20.91 billion in 2024 representing a %age increase of 10.8%. A notable change in expenditure in the Health Sector is the increase in allocation to health infrastructure by 37.6% to ZMW1.92 billion in 2025 from ZMW1.395 billion in 2024. The 2025 Budget includes a new allocation amounting to ZMW718.2 million meant for medical equipment.

The Education Function received a further increase, in absolute terms, in the budgetary allocation for 2025 following another increase in 2024. The Function's allocation as a share of the total budget, however, reduced to 14.5% in 2025 from 15.4% in 2024. In absolute terms, the budgetary allocation for education has increased to ZMW31.5 billion in 2025 from ZMW27.35 billion in 2024 representing an increase of 15.17%. The increase in education by functional expenditure is meant to further consolidate the gains



made in the Sector over the last two years which include the recruitment of teachers, construction of school infrastructure and provision of free education for primary and secondary school education up to grade 12. Notable budgetary allocations in 2025 include the provisions of ZMW2.25 billion and ZMW2.58 billion for school grants and school and university infrastructure, respectively.

Government's budgetary allocations as a percentage share of the total budget to social protection has substantially increased in 2025 to 7.4% from 5.4% in 2024 and in absolute terms has been allocated ZMW16.2 billion in 2025 from ZMW9.67 billion in 2024, respectively. Notable budgetary allocations for 2025 include the 7MW8.3 billion for the Social Cash Transfer Programme which has been increased substantially increased from ZMW4.1 billion in 2024. Further. ZMW1.2 billion has been allocated for the Food Security Pack in 2025 to support the vulnerable but viable farmers. The provisions are for the normal Social Cash

Transfer as well as Drought Emergency Social Cash Transfer, Food Security Park and Keeping Girls in School. In addition, the allocations will finance the Cash for Work Programme to support people in the drought-stricken areas in 2024. Government has increased the allocations to the Public Service Pension Fund to ZMW4.17 billion in 2025 from ZMW3.9 billion in 2024 and has provided 7MW400.0 million to Local Authorities Superannuation Fund. The increase in the allocations is aimed at reducing the waiting time for pension payment as well as to be current with payments. The continued increase in social spending by Government is in a bid to uplift the living standards of vulnerable citizenry and protect those affected by the drought.

Further, Government's budgetary allocations as a percentage share of the total budget to defence, public order and safety, housing and community amenities, environment protection and the 2014 budgetary allocation to social protection budget as a share of the total budget will

increase to 5.4% in 2024 from 4.9% in 2023 and in absolute terms to ZMW9.7 billion from ZMW8.1 billion in 2023.

Further, budgetary allocations as a percentage share of the total budget for defence has been marginally reduced to 4.7% while that of public order and safety has been marginally increased to 3.9% in 2025 from 5.6% and 3.8% in 2024, respectively. In absolute terms, the budgetary allocations to the two functions increased to ZMW10.32 billion and ZMW8.4 billion from ZMW9.9 billion and ZMW6.8 billion in 2024, respectively. A notable budgetary allocation in 2025 under the Public Order and Safety Function is for the Integrated National Registration Information System (INRIS) which has been allocated ZMW217 million.

To support the 2025 ZMW217.1 billion national expenditure, Government proposes to collect revenue through both tax and non - tax measures as well as grants and borrowing. The measures will result in ZMW174.2 billion or 80.2% of the Budget financed from domestic revenue while ZMW8.2 billion or 3.8% will be grants from Cooperating Partners and ZMW34.7

billion or 16.0% financed through borrowing.

In 2025, Government hopes to raise ZMW174.2 billion or 21.3% of GDP as domestic revenue which will be increased by 22.7% to revised 2024 domestic revenue which stood at ZMW142.02 billion. Government, therefore, hopes to increase the share of domestic revenue in its resource envelope in 2025 to 80.2% as a share of the total budget compared to 79% in 2024.

Government further proposes to reduce the share of total financing and grants in 2025 by 4.6% to ZMW42.92 billion from ZMW45 billion in 2024. In particular, ZMW8.17 billion will be in form of grants from Cooperating Partners while ZMW34.8 billion will be debt financing. Thus, the budget deficit for 2025 is estimated to be ZMW34.8 billion or 3.1% of GDP. See Figure 3 for the summary of the country's resource envelope for 2025 in comparison to 2024 and 2023 fiscal years.

Government proposes not to offer any tax concessions in 2025.

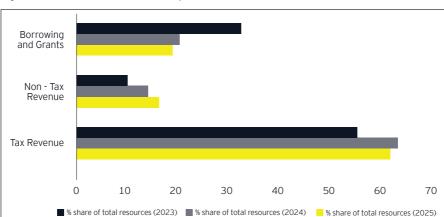


Figure 3: Zambia's Resource Envelope for 2025, 2024 and 2023.

Proposed change Increase the corporate income tax rate applicable to profits realised from export of nontraditional products and value addition to copper cathodes to 20% from 15%. Proposed change To introduce an Advance Income Tax at the rate of fifteen percent (15%) on remittances and exports above USD2,000 or its equivalent for transactions made without a valid Tax Clearance Certificate (TCC).

2025 National Budget Tax and Related Measures

1. Corporate Income Tax

Business impact

The proposed change aims to harmonise the corporate income tax rate, in line with recommendations from influential market participants, including the World Bank, who have consistently advocated for a repeal of CIT incentive rates. The change will affect exporters of products from agricultural processing including but not limited to flour, cereals. animal feed, canned fruits. canned meat, frozen seafood, coffee (roasted), syrups, and wool (cleaned and carded). Companies will need to assess the impact on operations and consider strategic adjustments to navigate these changes. This is

particularly important given the increased input costs due to the drought, such as those for maize, which could potentially negatively affect the competitiveness of our exports.

Strategic recommendations

To mitigate the effects of the increased tax rate, companies should reevaluate their business strategies, focusing on cost management, operational efficiency, and market expansion plans. Maintaining a competitive real exchange rate, macroeconomic stability, and encouraging domestic savings will be crucial for sustaining exports.

Business impact

This measure aims to improve tax compliance and reduce illicit financial flows. However, delays in obtaining TCCs may disrupt cash flow, contract bids, and goods imports. Businesses may face significant administrative burdens due to the time-consuming process of account reconciliation with the Zambia Revenue Authority (ZRA)

Strategic recommendations

To avoid operational delays and reputational risks, businesses must ensure timely reconciliation of accounts with the ZRA and maintain comprehensive defense files containing all relevant source documents. This proactive approach will help mitigate the administrative burden and ensure the smooth issuance of TCCs.

Proposed change To revise upwards by twenty percent (20%) the bands for presumptive tax on operations of motor vehicles for transportation of persons. Proposed change Provide for a waiver of penalties charged on the under-estimation of provisional tax

Type of Vehicle (sitting capacity)	Current Amount of tax per vehicle (per annum) (ZMW)	Proposed Amount of tax per vehicle (per annum) @ 20% (ZMW)	
64 seater and above	12,960.00	15,552.00	
50-63 seater	10,800.00	12,960.00	
36-49 seater	8,640.00	10,368.00	
22-35 seater	6,480.00	7,776.00	
18-21 seater	4,320.00	5,184.00	
12-17 seater	2,160.00	2,592.00	
Below 12 seater (including taxis)	1,080.00	1,296.00	

Business impact

The rise in presumptive tax bands will lead to higher operational costs for transport operators, likely resulting in fare increases for passengers. This may further strain commuters, especially given rising inflation, fuel, and electricity costs.

Strategic recommendations Operators should look for ways to enhance operational efficiency to offset the increased tax burden. This could include optimizing routes and improving vehicle maintenance to reduce downtime. It is also essential for the government to explore alternative policies to stimulate the economy without disproportionately affecting the lower-income population.

HOUSEKEEPING MEASURES

Business impact

This measure provides flexibility and relief to tax-payers that have under-estimated their taxes due to unforeseen circumstances. However, businesses must ensure that their under-estimation is justifiable and well-documented to avoid penalties.

Strategic recommendations

This proposed measure could provide significant relief to taxpayers that have made honest mistakes or faced unforeseeable circumstances leading to tax underestimation. However, it also places a premium on transparency, documentation, and the ability to justify underestimations to the Commissioner General.

Proposed measure:

Permit the deduction of the Skills Development Levy as a tax-deductible expense in advance of its payment.

Proposed measure:

Provide clarity that the 5-year period of incentives for a Special Purpose Vehicle (SPV) carrying out a Public Private Partnership (PPP) Project should begin when profits are first declared followed by the four consecutive years after.

Business impact

The proposed adjustment aims to refine the process of calculating taxable profits by permitting the deduction of the Skills Development Levy (SDL) at the point of accrual, rather than waiting for the actual payment of the levy. This approach aligns with the accrual accounting principle, which recognizes income and expenses when they are earned or incurred, regardless of

when the cash transactions occur.

Strategic recommendations

The proposed adjustment will allow the deduction of the Skills Development Levy (SDL) at the point of accrual rather than upon payment will help taxpayers to improve their cash flow management by deducting the SDL from their taxable income as soon as the liability is incurred.

Business impact:

The tax incentives for a Special Purpose Vehicle (SPV) involved in a Public-Private Partnership (PPP) project will commence from the year the SPV first declares a profit. These incentives will extend for the next four consecutive years, even if the SPV incurs losses in the subsequent years.

Strategic Recommendations

Once the incentive is triggered by the initial profit declaration, it will continue for four uninterrupted years. Even if the SPV experiences a loss in any subsequent year, the incentive period will not be extended to compensate for the loss-making year. Beneficiaries of the incentive should apply robust modelling to ensure that the incentive is utilized in full during the designated period.

Proposed measure: Broaden the list of transactions where a Taxpayer Identification Number is required.

Institution		Type of Transaction	
1.	Water Utility companies	Account opening and holding	
2.	Mobile money operators	Account opening and holding	
3.	Mobile money network operators and internet service providers	Account opening and holding	
4.	Airline operators and agents	Ticketing where buyer is of majority age and a Zambian resident	
5.	National Health Insurance Management Authority	Account opening and holding	
6.	National pension Scheme Authority	Account opening and holding	
7.	Professional bodies	Membership registration, subscription and renewal	
8.	Local Authorities	Registration of title deed	

Business impact

The current provisions of the Income Tax Act require certain institutions to obtain a Taxpaver Identification Number (TPIN) from individuals engaging in specific services or transactions. This proposed expansion seeks to broaden the scope of TPIN requirements. enhancing compliance across a wider range of financial activities. By improving the ability to track financial transactions. the measure aims to reduce tax evasion and promote a fairer distribution of tax obligations. The anticipated increase in compliance could result in higher tax revenue, providing the government with additional resources to invest in public services and infrastructure, ultimately benefiting the broader community.

In order to promote greater compliance, we continue to advocate for a single national system that will be linked to all individual interactions with the state and regulatory authorities. Taxpayers will then not have to procure and submit TCC's at every turn. The benefits of a national identity system include;

Improved Data Accuracy and Integration: A single identity allows for the integration of various databases across different government departments. This integration makes it



easier to track financial transactions and income sources, reducing the opportunities for individuals or entities to underreport income or hide assets.

Enhanced Monitoring and Compliance: With a unified identity system, the ZRA authorities can more effectively monitor taxpayers' compliance. It simplifies the process of cross-referencing information and identifying discrepancies in tax declarations.

Reduced Identity Fraud:

A secure national identity system can help prevent identity theft and fraud, which are often used to evade taxes. By having a single, verifiable identity, it becomes more difficult for individuals to use false information to avoid their tax obligations.

Streamlined
Administration: A
single identity system
can streamline tax
administration by reducing
the need for multiple
identifiers and simplifying
the process of filing taxes.
This can lead to increased
efficiency in tax collection
and lower administrative
costs.

Better Policy Making: With more accurate and comprehensive data, policymakers can make better-informed decisions regarding tax policy. This can lead to the creation of more effective measures to prevent tax avoidance.

International Cooperation:

A national identity system can facilitate the exchange of information with other countries under tax treaties and agreements. This global cooperation is crucial in tackling tax avoidance, especially when it involves offshore accounts and international transactions, which are often linked to passports (based on national identity rather than TPINS).

Increased Taxpayer
Convenience: For
taxpayers, a single identity
can make it easier to
interact with the tax
authorities, reducing
the complexity and time
involved in fulfilling their
tax obligations.

Greater Transparency: A unified system promotes transparency in financial transactions and tax matters, which can deter individuals and businesses from engaging in tax avoidance schemes.

Legal Enforcement: With a single identity, it becomes easier to enforce legal actions against those who engage in tax avoidance, as there is a clear link

Proposed measure: Broaden the list of transactions where a Taxpayer Identification Number is required.

between the individual or entity and their financial activities.

Public Trust: A robust national identity system can increase public trust in the tax system by demonstrating that everyone is subject to the same rules and that the government is taking steps to ensure fairness.

The single national identity project is a critical tool in combating tax avoidance, and its swift implementation is essential. However, it must be supported by robust privacy protections and stringent security measures to prevent the misuse of personal data. Additionally, this initiative should be part of a comprehensive strategy that includes legal reforms, international cooperation. and effective enforcement

mechanisms to ensure its success. Integrating these elements will maximize the project's potential while safeguarding individual rights and maintaining public trust.

Strategic Recommendations

While this expansion may increase administrative efforts to ensure compliance, it also enhances transparency and accountability in financial transactions. By making it more difficult to conceal income or evade taxes, this measure supports a more equitable tax system. Businesses should prepare for increased documentation and reporting requirements to maintain compliance and avoid potential penalties.



Business impact

The responsibility for approving pension funds for income tax purposes, previously held by the Commissioner General, has now been transferred to the Pensions and Insurance Authority following the repeal of the Fourth

Schedule. However, several sections within the Income Tax Act still reference the repealed schedule and have not been updated. This measure aims to amend the Act to ensure consistency and alignment with current legislative provisions.

- When obtaining finance issued by a government ministry, department or agency; and
- When obtaining finance from any institutions registered under the Banking and Financial Services Act.

Business impact

The measure is intended to enhance compliance. extend the requirement for a general Tax Clearance Certificate (TCC) to all government services issuing licenses. Additionally, borrowers will be required to obtain a general TCC to meet the minimum compliance requirements before securing finance from institutions regulated by the Banking and Financial Services Act. This measure will ensure that a TCC is part of the mandatory checks before any recommendation or clearance is provided to the hank

We reiterate the comments made above with respect to a single national identity system.

Strategic recommendations

Taxpavers should familiarize themselves with the extended requirement for a general Tax Clearance Certificate (TCC) for all government services issuing licenses and for securing finance from institutions regulated by the Banking and Financial Services Act. Regularly review and ensure that vour business is fully compliant with all tax obligations to avoid any delays or issues in obtaining a TCC. Since obtaining a TCC is now a prerequisite for licensing and financing, factor in additional time for these processes in your business planning and operations. Consider consulting with a tax professional or advisor to ensure that your business meets all the new requirements and to navigate any complexities related to obtaining a TCC. Keep abreast of any further details or guidance provided by the government regarding the implementation of these changes to ensure ongoing compliance.

To introduce a provision that allows taxpayers to obtain Withholding Tax (WHT) exemption certificates on royalties.

Proposed change:

Introduce a specific due date for appointed withholding agents under the Income Tax Act, mandating that these agents remit taxes withheld to the ZRA no later than two days before the due date prescribed for the respective items of income or category of tax. This measure is intended to define a clear timeline for compliance and ensure timely tax collection.

Proposed change:

Implement a penalty for Withholding Tax (WHT) agents who fail to remit withheld taxes before the prescribed due date.

2. Withholding Tax

Business impact

Currently, the law allows the ZRA to grant compliant taxpayers exemptions from Withholding Tax (WHT) on income related to management and consultancy services. However, this exemption does not apply to royalty payments, for example payments for the use or right to use equipment, creating an administrative burden for suppliers of royalty services who must obtain WHT certificates from the ZRA and apply for tax credits.

Business impact

This measure aims to establish a firm due date for appointed withholding agents, enhancing tax administration and compliance. Low levels of compliance and delays in remittance have led to mismatches between the amounts declared by taxpavers and the withholding agents, causing issues such as the non-issuance of VAT certificates required for taxpayers to claim credits, and complex reconciliation processes with the ZRA. By introducing a deadline two days before the prescribed due date, the ZRA intends to minimize remittance delays, improve the reconciliation process. and strengthen cash flow management for tax revenue. Withholding agents will need to improve their tax handling procedures, potentially reducing instances of late payments, penalties, and interest.

Business impact

Currently, there is no penalty for Withholding Tax (WHT) agents who fail to meet remittance deadlines. Non-compliance by these agents has, in the past, led to underpayment penalties and interest being unfairly imposed on taxpayers, as they are unable to utilize the withholding tax certificates issued for taxes withheld by agents. Introducing a penalty for late remittance by WHT agents is essential to improving tax compliance

and promoting fairness among taxpayers. This measure aims to address the issue of delayed payments, ensure timely revenue collection, promote fairness, and enforce compliance with tax laws, while covering administrative costs.

Strategic

Recommendations

For WHT agents, this change highlights the critical importance of timely tax remittance. Agents must be vigilant

Implement a penalty for Withholding Tax (WHT) agents who fail to remit withheld taxes before the prescribed due date.

Proposed change:

Introduce the following definitions in the Property Transfer Tax Act to clarify the definition of intellectual property:

"Copyright has the meaning assigned to the word in the Copyright and Performance Rights Act, Cap 406";

"Industrial Design has the meaning assigned to the words in the Registered Designs Act, Cap 402";

"Patent has the meaning assigned to the word in the Patents Act, Cap 400"; and

"Trademark has the meaning assigned to the words in the Trademarks Act" in managing their tax processes to avoid penalties and additional taxes, as these are nondeductible expenses under the Income Tax Act. This measure encourages agents to review and enhance their internal controls and procedures to meet tax remittance deadlines. Complying with these requirements not only prevents financial penalties but also contributes to a fairer and more efficient tax system.

3. Property Transfer Tax

Business impact

The proposed change aims to define intellectual property (IP) within the relevant legal framework in Zambia. This is a positive step as it provides clarity on the legal protection of IP, including patents, trademarks, designs, and copyrights. Such protection is essential to ensuring that businesses and individuals can effectively exploit these intangible assets.

IP rights allow creators to control their work, fostering innovation. In contrast, other intangibles, such as human capital and valuable relationships, are harder to quantify and lack the same legal protection.

According to IAS 38, intangibles are recognized if they meet one of the following criteria: a) The asset can be separated from the entity and transferred individually or through a related contract; or b) The asset arises from a contractual or legal right. Only identifiable intangible assets can be recorded on the balance sheet. This

approach is logical, as recognizing unidentifiable intangibles would be impractical. A clear definition of IP is crucial for accurate valuation.

We recommend that the ZRA provide tailored, clear, and practical guidelines for valuing different types of IP to account for their varying nature.

Strategic Recommendations

Given the proposed changes, businesses involved in acquisitions that include intellectual property should carefully consider the specific type of IP being transferred. It is essential to ensure that the treatment of IP is aligned with both the principal legislation and the Property Transfer Tax Act.

Valuation methods may vary across different types of IP, so taxpayers should assess these changes diligently to ensure compliance and accurate reporting.

Expand the property transfer tax coverage to include regulated lenders outside the Banking and Financial Services Act to base foreclosure property valuations on actual sale price rather than the open market price.

Business impact:

The financing market in Zambia has expanded to include lenders who are not regulated by the Banking and Financial Services Act (the Act). Currently, the Property Transfer Tax (PTT) Act limits the calculation of actual value to the sale proceeds received exclusively by financial service providers governed by the Act, rather than using the open market value. This has created a market gap, as players outside the Act were seemingly able to rely on the open market price.

The proposed amendment seeks to standardize the valuation approach for all regulated lenders offering financing or other forms of financial support secured by real estate and structures.

Strategic Recommendations:

The change primarily affects financial market players not regulated by the Act. These lenders will now need to align with regulatory compliance,

potentially overhauling their asset valuation methods, particularly for land and buildings used as collateral. This could lead to revised reporting requirements, impacting financial disclosures and necessitating adjustments in capital reserves.

Additionally, risk management protocols may need to be refined to reflect the updated collateral values. Operational costs are expected to increase as institutions implement the necessary procedural changes. Borrowers may also see shifts in the competitive landscape. as the legislation aims to equalize treatment among financial service providers. potentially affecting the terms and availability of credit.

Proposed change Make a General Tax Clearance Certificate (TCC) a mandatory requirement when transferring property. Proposed change **Empower the Commissioner** General to exempt a supplier or category of suppliers from using the Smart Invoice System, under prescribed conditions.

Business impact:

For property transfers, make sure a compliance check is performed before approving any transfer. Both the buyer and the seller must provide a general Tax Clearance Certificate (TCC). Currently it's possible to obtain a specific Property Transfer Tax clearance certificate without having a general TCC. With this change, a general TCC will now be expected to be provided by both buyers and sellers in a property transfer transaction. This change is intended to increase the compliance checks associated with the transfer of property. It also broadens the tax base generally because there may be taxpayers outside the main sectors

who are not tax compliant who will be required to comply to give effect to the transaction.

We reiterate the comments made above with respect to a single national identity system.

Strategic recommendations

Taxpayers must be diligent in ensuring the TCC is obtained in a timely manner. Any unsettled tax liabilities which would impede the obtaining of a TCC will now also limit commercial transactions as far as the selling and buying of property is concerned. For the ZRA, this restriction should drive an uptake of compliance by taxpayers who do not seek to have restrictions in their commercial transactions.

4. Value Added Tax Changes

Housekeeping Measures

Business Impact:

The mandatory use of the Smart Invoice System in Zambia is set to take effect on 30 September 2024. To date. only 19,000 taxpayers have been successfully onboarded. The current regulations do not allow the Commissioner General to exempt suppliers from using the system, even when faced with practical challenges such as lack of technological infrastructure or sector-specific constraints. The proposed change would empower

the Commissioner General to grant exemptions under specific conditions. providing flexibility for businesses such as small enterprises or those with limited tech resources. This flexibility is beneficial. but it's important that the ZRA clearly outlines and publicly discloses the criteria for granting exemptions. Without transparent guidelines, there is a risk of discretionary exemptions that could undermine the overall objectives of digitization and real-time



tax reporting.

Strategic Recommendations

For businesses struggling to comply with the Smart Invoice requirement due to sector-specific or international tax challenges, this change provides a potential exemption avenue.

We recommend that businesses actively engage with the ZRA as successful exemptions could reduce the administrative burden and allow companies to focus on growth and operations. However, businesses should prepare their compliance strategies in case exemptions are not granted.

Business Impact:

Input tax deduction is a critical process allowing VAT-registered businesses to reclaim VAT paid on their purchases. Under the proposed change, only invoices issued through the Smart Invoice System will be accepted for input tax deductions, except for businesses exempted from using the system. This ensures that even exempted businesses. can still benefit from tax deductions, maintaining a fair system without penalizing those granted an exemption.

Strategic Recommendations:

Businesses must ensure all eligible transactions are documented through the Smart Invoice System to benefit from input tax deductions. For those with exemptions. it is crucial to maintain proper documentation with approved invoices to continue enjoying the financial advantages of input tax deductions. without penalty. We caution that active engagement is had with the ZRA to agree on the effective date of the exemptions noted.

Business Impact:

This change updates designations within the ZRA from "Assistant Commissioner" to "Assistant Director," aligning job titles in the VAT Act with the operational structure of the ZRA.

Strategic recommendations:

Taxpayers should be aware of the updated titles and ensure they are addressing the correct officials in their communications with the ZRA. Using accurate designations can streamline interactions and improve efficiency when dealing with tax matters.

Empower the Commissioner General to remit penalties in cases where the current legislation does not provide such authority.

Proposed change

Delete the definition of "life policy" under Order 2 of the Exemption Order.

Business Impact:

Currently, the Commissioner General can waive penalties related to VAT offences. under certain conditions. This proposed change extends the authority to remit penalties beyond the existing legislation. While this may offer more flexibility, it raises concerns about granting the Commissioner General broad discretionary powers without clearly defined limits. The change should ideally be introduced alongside taxpaver rights within the Tax Administration Act which

will define ingredients for voluntary disclosure and holistically function to balance authority with accountability.

Strategic

Recommendations: For taxpayers, this

For taxpayers, this expanded authority could provide more opportunities to seek penalty relief, easing financial burdens in unique situations. As such, we recommend that strategic health checks are conducted and voluntary disclosures made to the ZRA.

Business Impact:

Following the enactment of the Insurance Premium Levy Act of 2015. insurance products. including life policies, are now taxed under this Act. The presence of a "life policy" definition in the VAT Exemption Order is redundant and potentially confusing. The proposed change eliminates this redundancy, aligning the VAT Act with the current tax framework for insurance products.

Strategic recommendations:

This change provides greater clarity for taxpayers, reducing the risk of errors and confusion regarding tax liabilities for insurance products. It simplifies the administrative process for both taxpayers and tax authorities, ensuring that all tax references for insurance are governed under the correct legislation.

Delete the word "thousand" under Regulation 3(1)(b) of the VAT General Regulations.

Proposed change

Replace "million" with "thousand" under Regulation 15 of the VAT General Regulations relating to the biannual submission of returns.

Proposed change

Delete Regulation 19(2) of the VAT General Regulations regarding penalties for not using cash registers.

Business Impact:

This update corrects the wording in response to Zambia's currency rebasing. The change ensures that regulatory thresholds align with the rebased currency structure, avoiding confusion and maintaining regulatory clarity. However, this update may also broaden the range of goods subject to VAT, as more items could now be classified as taxable.

Business Impact:

This amendment addresses an oversight from the 2013 currency rebasing, correcting the denomination referenced in the regulation. The proposal aligns the VAT regulations with current currency standards. However, the provision for bi-annual return submissions seems misaligned with the ZRA's broader push towards real-time reporting, particularly

with the adoption of Smart Invoicing.

Strategic Recommendations:

Taxpayers should ensure compliance with the updated currency figures to avoid filing incorrect returns. Additionally, the ZRA should consider further modernization efforts to fully align this regulation with the real-time reporting framework.

Business Impact:

With the transition to fiscalization and the Smart Invoicing System, the use of traditional cash registers for VAT sales recording has become obsolete. Removing this regulation reflects the current mandate to use electronic systems for sales recording, streamlining compliance requirements and aligning with modern tax practices.

Strategic Recommendations:

Taxpayers should ensure they are fully transitioned to the Smart Invoicing System for VAT transactions. The removal of penalties for not using cash registers emphasizes the need for electronic compliance.

Clarify the start of the 72-hour window for uploading manually recorded transactions in the event of system downtime.

Proposed change

Provide a uniform validity period for manually issued invoices under Regulations 5 and 6 of the VAT (Electronic Invoicing System) Regulations.

Proposed change

Add a clause under Regulation 10 to address other reasons for discontinuing the use of the approved invoicing system.

Business Impact:

This amendment clarifies that the 72-hour period for uploading manually recorded transactions to the Smart Invoice System begins once the system is restored, ensuring there is no ambiguity during downtimes. This is a timely consideration and plausible change given the dire effects of prolonged loadshedding that is affecting many businesses and could lead to downtime of systems. We, therefore recommend that this change be actualised. through the amending of the current provisions regarding the uploading of manually recorded transactions to the Smart

Invoice System following a system downtime to align with the clarification.

Strategic Recommendations:

Firstly, taxpavers should closely monitor system functionality and ensure compliance with the 72hour upload window once the system is back online. Secondly, taxpavers should also ensure to keep well documented records during the downtime period. such as correspondence with service providers. This will help avoid noncompliance penalties due to misunderstandings about when the upload period begins.

Business Impact:

The introduction of a uniform validity period for manually issued invoices simplifies the compliance process during electronic invoicing system disruptions, ensuring consistency in handling manually recorded transactions.

Strategic Recommendations:

Taxpayers should familiarize themselves with the new uniform validity period, ensuring they follow consistent procedures during system disruptions. This will reduce administrative confusion and streamline input tax claims.

Business Impact:

The amendment allows for broader circumstances under which a taxable supplier may discontinue the use of an approved invoicing system, beyond simply ceasing business operations. This adds flexibility for taxpayers and ensures regulatory alignment with various

business scenarios.

Strategic

Recommendations:

Taxpayers should communicate openly with the ZRA about any changes to their use of the approved invoicing system, ensuring compliance with the expanded regulations and maintaining transparency.

Proposed change Clarify that an approved invoicing system cannot be transferred to a third party under Regulation 11 of the VAT (Electronic Invoicing System) Regulations. Proposed change Introduce a 5% surtax on imported printed paper products and packaging materials classified under HS code 4819.20.00.

Business Impact:

This clarification strengthens the security of the Smart Invoice System by prohibiting the transfer of an approved invoicing system to third parties, ensuring that only registered taxpayers use the system for their transactions

Strategic

Recommendations

Taxpayers should implement strong security measures to prevent unauthorized use of their approved invoicing systems. This will ensure compliance and protect the integrity of their electronic tax records.

5. CUSTOMS AND EXCISE

Customs and Excise Measures

Business impact:

The surtax is designed to encourage the use of domestically produced paper products and packaging materials by making imported alternatives more expensive, thereby promoting local production. This measure aims to support manufacturers of paper products and packaging materials, such as folding cartons, boxes, and cases made from non-corrugated paper or paperboard. However, the government should also consider incentivizing sustainable practices to foster competitive advantages both locally and internationally.

Strategic

Recommendations:

If your business imports printed paper products and packaging materials under HS code 4819.20.00, vou will incur an additional 5% surtax on these goods. potentially increasing vour costs. For local manufacturers, this measure could provide a competitive edge by driving demand for domestically produced products. Businesses should assess the potential cost impact and explore opportunities to source locally to mitigate the effects of the surtax.

Proposed change The government plans to introduce a 20% Selected Goods Surtax on imported garden hose pipes of the following dimensions.

Hs Code	Description	Current Société Générale de Surveillance (SGS) Rate (%)	Proposed SGS Rate (%)
3917.21.20	Garden hose of an internal diameter not exceeding 30.00mm	0	20
3917.21.90	Other	0	20
3917.22.20	Rigid, of an internal diameter not exceeding 203.00mm	0	20
3917.22.90	Other	0	20
3917.23.20	Rigid, of an internal diameter not exceeding 30.00mm	5	20
3917.23.90	Other	0	20

Business impact:

The government's decision to impose a 20% surtax on garden hose pipes not only aims to increase revenue but also to incentivize local production, potentially leading to increased investments and growth within the domestic manufacturing sector. This measure encourages supply chain adjustments as importers and domestic producers respond to the new cost structures, seeking alternative materials or sources to maintain profitability. Additionally, careful consideration of international trade agreements is essential

to ensure compliance and avoid any negative effects on trade relationships. The surtaxes on garden hose pipes, as well as on paper products and packaging materials, are expected to strengthen local industries by reducing reliance on imports and fostering a more selfreliant, robust economy. However, it is critical to balance these objectives with potential broader economic impacts, such as inflationary pressures and shifts in consumer demand. to ensure the measures support the overall fiscal health of the country.

The government plans to introduce a 20% Selected Goods Surtax on imported garden hose pipes of the following dimensions.

Proposed change

The government plans to introduce a 20% Selected Goods Surtax on imported garden hose pipes of the following dimensions.

Strategic Recommendations:

For manufacturers in the paper products, packaging materials, and garden hose pipe sectors, the surtax on imported goods presents a strategic opportunity to increase your competitive advantage in the domestic market. The higher costs of imports may make locally produced goods more attractive, potentially driving greater demand and expanding your market share. This is an ideal time to invest in production capacity, technological innovations, and process optimization to fully

capitalize on the favorable conditions.

However, this requires a proactive approach to supply chain management. ensuring flexibility and resilience in sourcina materials and scaling production to meet increased demand while maintaining quality standards. While the surtax is designed to boost domestic manufacturing. success will depend on strategic planning and operational excellence to seize the opportunities these fiscal measures. create.

Business impact:

The proposed increase in Excise Duty on nonalcoholic beverages from 60 Nawee to ZMW1 per liter represents a substantial 67% hike. While this policy is likely designed to boost government revenue, it may also align with public health initiatives aimed at reducing the consumption of sugary drinks. However, this change could have significant implications for the beverage industry, potentially leading to price increases for consumers and a decline in demand for these products.

Strategic Recommendations:

From a fiscal perspective. the increase in Excise Duty on non-alcoholic beverages is expected to generate more state revenue while supporting public health efforts to curb sugary drink consumption. Businesses in this sector should prepare for higher operational costs and may need to adjust pricing strategies to maintain profitability. Conducting a detailed analysis of consumer price sensitivity will be essential to anticipate shifts in demand and refine pricing models accordingly. Additionally, effective communication with

The government plans to introduce a 20% Selected Goods Surtax on imported garden hose pipes of the following dimensions.

Proposed change

Introduce automatic annual adjustment indexation of the respective specific Excise Duty on tobacco and tobacco products, fuel and used motor vehicles based on the average inflation rate for the preceding year, which shall be capped at 20%.

Proposed change

Introduce Excise Duty at the rate of 10% on the betting amount.

consumers regarding potential price changes will be crucial to maintaining market stability and customer loyalty. This excise duty increase could also alter the competitive dynamics within the market, potentially benefiting producers who can absorb the higher costs

or those with a diversified product portfolio. It is critical for stakeholders to thoroughly assess the economic impact of this duty change and adjust their business strategies to stay competitive in the evolving market environment.

Business impact:

This automatic adjustment rate is designed to match our inflation goals, ensuring that any deviation from this range warrants thoughtful consideration by taxpayers. This policy can been seen as having an adverse impact on

taxpayers as the automatic adjustment for inflation is not mirrored with automatic adjustments for income taxation. In addition, we note that 20% is significantly high as it is in excess of our inflation target.10%.

Business impact:

The introduction of a 10% Excise Duty on the betting amount is a fiscal measure designed to broaden the tax base and increase government revenue, which can be allocated towards funding public services. This duty aims to capture revenue from the betting industry, which has been underrepresented in tax contributions relative to its economic impact.

Additionally, this duty serves a dual purpose by potentially acting as a deterrent to excessive gambling. By increasing the cost of betting, it may reduce the frequency and volume of bets placed,

thereby addressing concerns about gambling addiction and its associated social costs.

The success of this tax in raising revenue without overly harming the betting market will depend on how sensitive consumers are to price changes and how well the industry can absorb or pass on the added cost to customers. Additionally, the effectiveness of this policy in curbing gambling addiction will require evaluation over time. possibly through studies on betting behaviors and public health impacts. In light of high levels of poverty and unemployment, gambling

Introduce Excise Duty at the rate of 10% on the betting amount.

Proposed change

Increase the penalty fee from 1,667 fee units (ZMW664.40) to 10,000 fee units (ZMW4,000) for anyone who fails to lodge a declaration for goods prior to the importation.

Proposed change

Provide for the pre-clearance of goods at any time prior to the arrival of goods in Zambia.

Proposed change

Provide for the Commissioner General to make rules relating to the conditions applicable to a person authorized to transact business on behalf of another. may be seen as a desperate attempt to earn income. The tax authority should also regulate the location of betting operations, which are often concentrated in poorer communities with vulnerable populations.

In addition, the revenue generated by government could be channeled to gambling addiction rehabilitation facilities or programmes.

Strategic Recommendations:

For businesses in the betting industry, the

introduction of a 10% Excise Duty on betting amounts represents a significant change in their cost structure. A portion of the amounts wagered by customers will now be redirected to the government as tax, reducing the net income generated from each bet.

Betting companies may need to reassess their pricing strategies, such as adjusting odds or betting conditions, to maintain profitability while still offering attractive options to customers.

HOUSE KEEPING MEASURES

Business impact:

Despite being a compulsory legal obligation, the adoption rate of the preclearance facility continues to be minimal. This

initiative aims to boost the usage of the pre-clearance facility, thereby improving processing efficiency and alleviating border traffic congestion.

Business impact:

At present, Section 32b1(d) of the Principal Act stipulates that pre-clearance must be completed at least five days before goods arrive in Zambia. The proposed amendment seeks to allow for pre-clearance to be conducted at any point before the goods enter the country.

Business impact:

In accordance with Section 184 of the Principal Act, the proposed amendment aims to empower the Commissioner with the authority to establish rules under this provision. This is to facilitate the efficient management of individuals authorized to conduct business on behalf of others.

Amend the Principal Act to provide for an appeal to be made on seized goods, additional methods of serving a seizure notice and the period for which a determination on the seizure can be made by the Commissioner General.

Proposed change

Provide circumstances under which a motor vehicle temporarily imported and declared on an Integrated Border Declaration Form (IBDF), or a Customs Import Permit (CIP) Form may be finally cleared for home consumption.

Proposed change

Amend the Principal Act to empower the Commissioner General to suspend user accounts for Customs clearing agents and their principals, with outstanding obligations.

Business impact:

The current regulations do not allow for appeals against the seizure of goods, nor do they define a deadline for the Commissioner General to decide on such appeals. Additionally, seizure notices are restricted to being served through traditional methods. The

recommended amendment to Section 162 of the Principal Act seeks to create a clear appeals process for seized goods, establish a decision-making deadline for the Commissioner General, and update the service of notices to include email, aligning with modern communication methods.

Business impact:

The current laws do not permit converting temporary vehicle import documents, such as the IBDF or CIP, into final clearance for domestic use, except in accident cases.

The proposed change seeks to rectify this by introducing a legal pathway for permanently clearing temporarily imported vehicles, simplifying the import process.

Business impact:

The proposed action aims to bolster adherence to regulations among Customs clearing agents and their clients by granting the Commissioner General the authority to suspend Taxpaver Identification Numbers (TPINs) when there are unresolved duties as outlined in Section 171A. This step is intended to incentivize prompt fulfillment of obligations. ensuring a more efficient and compliant customs environment.

Strategic recommendations

Taxpavers should ensure that they are not late on customs payments or have not resolved other. customs-related issues. otherwise their TPIN could be suspended. This suspension would prevent vou from conducting any further customs transactions until the issues are resolved. The goal is to encourage timely compliance with customs duties to avoid disruptions in business activities.

Align the numbers of days for payment after an assessment from 5 to 3 days.

Align the number of days for payment of duty to within 3 days after the issuance of a notice assessment.

Proposed change

Introduce Simplified Trade Regime with a value threshold of exported goods aligned to that of imported goods (USD2,000) for which an entry can be dispensed with as the Commissioner General may prescribe.

Proposed change

Raise the fee units for duplications and cancellations of bills of entry from 5,000 (equivalent to ZMW2,000) to 10,000 (equivalent to ZMW4,000) in the first schedule to the principal regulations.

Business impact:

The initiative is designed to update the Customs and Excise Act to reflect the latest amendment, which shortens the period from assessment to payment from five days to three days, as per Section 32(B) (2) through Act No 25 of 2023. Additionally, this measure aims to streamline trade and accelerate border traffic movement. However, navigating the

three-day timeframe may present hurdles, particularly with potential disruptions stemming from issues between the bank/ZRA interface or the ZRA's payment system. It's advisable to establish a procedure for promptly requesting waivers for any penalties incurred under these circumstances, ensuring smooth operations.

Business impact:

Currently, there is no Simplified Trade Regime for exports, nor a specific value limit that allows for entry exemptions on exported goods, unlike the existing regime for imports valued at USD2,000 or less. The proposed measure will establish a legal framework to automate exports under a Simplified Trade Regime, making it easier to handle transactions within this value threshold. Additionally, it will improve the collection of crossborder trade statistics and strengthen mechanisms for tracking export proceeds.

Business impact

Doubling the fees aims to reduce the number of times bills of entry are altered, which can lead to complications and potential fraud. This adjustment is aimed at discouraging the practice of duplicating and cancelling bills of entry within the ASYCUDA World system and at reducing instances of fraud.

Shorten the period within which warehoused goods must be entered for consumption, re-warehousing, or export from fifteen days to ten days after the expiry of one year, as stipulated under section 62 of the principal act.

Proposed change

Consolidate the updates to the Customs and Excise Act by amending all references from "Revenue Appeals Tribunal" in accordance with the Tax Appeals Tribunal Act of 2015. This includes changes in Section 2, Section 86, and Section 99 of the principal act, among any other sections where the outdated term is used.

Proposed change

Amend Section 86(4) of the Customs and Excise Act to align the appeal period for valuation assessments with the 30-day timeframe specified in Clause 5 of the Tax Appeal Tribunal Rules.

Proposed change

Extend the operating hours at Victoria Falls to a 24-hour schedule.

Business impact

This measure is designed to tighten the timeframe for dealing with warehoused goods, encouraging guicker decision-making and actions regarding their final disposition. By reducing the allowed period, it aims to enhance the efficiency of warehouse management and reduce the potential for domestic revenue loss. The current provision allows a 15-day period for these actions, and the proposed measure aims to reduce this to 10 days to ensure goods are promptly

accounted for, thereby minimizing revenue risks.

Strategic recommendations

For businesses and individuals with goods in warehouses, it is important to plan ahead and be prepared to act within the new 10-day window after the one-year mark. This change requires more prompt action to avoid penalties or loss of goods, emphasizing the need for efficient logistics and decision-making processes.

Business impact

The consolidation of these changes will ensure that the Customs and Excise Act accurately reflects the current legal framework, thereby eliminating any potential confusion or legal discrepancies that

may arise from outdated terminology. This harmonization is crucial for the integrity of the legal system and the clarity it provides to businesses and individuals engaged in taxrelated matters.

Business impact

This proposed amendment seeks to harmonize the Customs and Excise Act with the Tax Appeals Tribunal Rules, ensuring clarity and consistency in the appeals process. By establishing a uniform 30-day period for appeals, it simplifies the procedure

for taxpayers and aligns the legislation with current practices across other tax laws, such as the Income Tax Act.

We note that there is no timeframe stipulated for the ZRA to resolve the objection and that is unfair to taxpayers.

Business impact

This measure is designed to enhance trade facilitation and support the tourism industry by allowing for continuous service throughout the day and night. Travelers and businesses can now access services at Victoria Falls at any time, providing more flexibility and convenience for cross-border movements and tourism-related activities.

Designate Zombe as a customs house and Mpika as both a port of entry for goods imported by pipeline and a warehousing port. Currently, Zombe is only a port of entry for non-commercial goods, and Mpika is neither a port of entry nor a customs house.

Proposed change

Introduce a requirement for the payment of 30 fee units (equivalent to ZMW12) for each entry of goods for export under a simplified trade regime. This is in addition to the current fee of 30 fee units (ZMW12) that is already applicable to the entry of imported goods for consumption under the same regime.

Business impact

It's important to recognize that, from an infrastructure standpoint, Tanzania Zambia Mafuta (TAZAMA) maintains ownership of the country's largest pipeline. Consequently, it will be necessary to establish contractual agreements specifying the entry points and timing for the delivery of fuel products. The nature of petroleum goods presents a challenge for storage as the number of customs houses and ports of entries that limited for the availability to receive importations. The additional, customs house and port of entry allows for the network expansion amongst Zambian OMCs. By legally establishing Zombe as a customs house for the clearance of commercial goods and designating Mpika as a port of entry and warehousing location for fuel imported via pipeline, this measure is expected to improve trade and logistics processes.

Strategic

Recommendation:

Businesses and traders will benefit from new options for the importation and warehousing of goods, especially fuel, at Zombe and Mpika. These changes should streamline the clearance process, reduce wait times, and simplify logistics, providing a more efficient pathway for managing commercial goods and fuel imports.

Business impact

This proposal seeks to create parity in the fee structure for both imports and exports under the simplified trade regime, which is expected to enhance the monitoring and management of trade flows. Simplified procedures are beneficial for both Customs and

the trade. They facilitate the movement of goods, encourage compliance with Customs rules and enable more effective use of Customs resources. They also promote the modern concept of a partnership between Customs and traders within international trade.

Establish a fifteen-day period for goods entered for in-bond carriage by rail to reach a customs area or another inland customs office for consumption or warehousing.

Proposed change

Provide for a general penalty for offences committed by licensed manufacturer of excisable goods under section 155 of the Customs and Excise Act

Business impact

The extension of the transit period acknowledges the practical difficulties faced in rail transport and aims to provide a more realistic timeframe for businesses to comply with customs requirements without incurring penalties for delays that are often outside their control.

Strategic recommendations

recommendations
Businesses transporting

goods by rail in bond to a customs area or inland customs office will have a longer window of fifteen days to complete the transit and carry out the necessary customs procedures for consumption or warehousing. This should help to alleviate some of the pressure and potential costs associated with the slower pace of rail transport.

Business impact

This proposed measure seeks to standardize penalties for offenses committed by licensed manufacturers of excisable goods under section 155 of the Customs and Excise Act. Currently. section 155(2) references a general penalty based on the customs value. as calculated using the fifth schedule of the Act. However, for excise purposes, the value of goods is determined using the sixth schedule. This discrepancy can lead to inconsistencies in how penalties are applied to excisable goods versus services.

The proposed amendment aims to resolve this by aligning the penalty framework for excisable goods with that of excisable services, as outlined in subsection (3). This alignment

ensures a uniform approach to penalties across both goods and services, promoting fairness and clarity in enforcement. It provides manufacturers with a clearer understanding of how penalties are assessed and ensures that penalties are consistently applied according to the correct valuation methods for excisable items.

Strategic Recommendations:

For manufacturers, the standardization of penalties under section 155 of the Customs and Excise Act introduces a clearer and more consistent framework for fines and punishments related to offenses. By using the value of goods as determined by the sixth schedule, rather than the customs value from the fifth schedule, this change ensures infractions

Provide for a general penalty for offences committed by licensed manufacturer of excisable goods under section 155 of the Customs and Excise Act

Proposed change

Subdivide the following subheadings in accordance with the recommendations from the Customs Cooperation Council:

(a) 2903.89.00 (Other halogenated derivatives of cyanic, cyclenic or cycliterpentic Hydrocarbons).

- (b) 2909.30.10 (other Aromatic ethers and their halogenated, sulphonated, nitrated or nitrosated derivatives not in bulk) and 2903.30.20 (Other Aromatic ether and their halogenated, sulphonated, nitrated or nitrosated derivatives not in bulk):
- (c) 2915.90.00 (Other Saturated acrylic monocarboxylic acids and their anhydrides, halides, peroxides and peroxyacids; their halogenated, sulphonated, nitrated or nitrostated derivatives)
- (d) 2930.90.10 (Other organo-sulphur compounds in bulk) and 23930.90.20 (Other organo-sulphur compounds Not in bulk) in accordance with the recommendations made by the Customs Co-operation Council.

are penalized based on the appropriate excise valuation method. This alignment is significant, as it harmonizes the penalty structure for both excisable goods and services. Manufacturers should carefully review their compliance procedures to ensure adherence to the updated regulations. Understanding and adapting to this change will help mitigate the risk of legal issues and financial penalties, ensuring smooth operations under the new framework.

Business impact

This measure aims to implement the recommendations of the Customs Co-operation Council, of which Zambia is a member. The Council has advised member. administrations to take appropriate actions by adding extra subdivisions to their statistical nomenclatures. This will help in collecting and comparing data on the international movement of substances controlled under the Rotterdam Convention.

Strategic recommendations

For taxpayers, this policy means that Zambia will enhance its data collection and comparison capabilities regarding the international movement of substances controlled under the Rotterdam Convention. This could lead to more accurate and transparent reporting, potentially affecting businesses involved in the import or export of these substances. Improved data collection might also result in stricter compliance requirements and better regulatory oversight, ensuring that trade practices align with international standards.



Business impact

At present, both Soya Beans and Soya Husks are subject to a 5% customs duty and a 5% surtax, and they share the same HS Code 2304.00.00, even though they are distinct products. Moreover, Soya Husks are primarily domestic food whilst Soya Beans are considered both a domestic or commercial food and the distinction of the two foods through means that different policies may be applied accordingly. Since the two products have different values and uses, the measure aims to ensure that any policy changes affecting one product willo not inadvertently impact the other due to their shared HS Code classification.

Business impact

This measure aims to establish a legal framework for exempting domestic generators of electrical energy, with the goal of encouraging households to adopt off-grid power solutions. Currently, no provisions exist to exempt anyone producing electrical

energy, regardless of quantity or purpose. This policy would create incentives for households and businesses to invest in renewable energy, reducing dependency on the national grid and advance the objectives of the net metering initiatives.

Proposed change Amendment of the Mobile Money Transaction Levy Act, 2023, to appoint ZRA to administer the Act. Proposed change Replace the words "electronic fiscal device" with the words "Electronic Invoicing System" in the Insurance Premium Levy Act wherever the word appears.

NON - TAX MEASURES

6. Mobile Money

Business impact In 2024, the Government introduced levies on person-to-person mobile money transfers at different rates based on the amounts transferred in order to bolster revenue collection. The levy is currently administered by the Bank of Zambia. To leverage on the existing systems and various mechanisms that 7RA in place, the measure proposes to amend the Act to appoint the Zambia Revenue Authority as administer of the levv.

What does this mean for you:

The ZRA, with its established infrastructure and expertise in tax collection, is well-positioned to administer

the levy more efficiently than the Bank of Zambia. whose primary focus is monetary policy and financial sector regulation. This transition is expected to leverage ZRA's existing mechanisms for tax collection, which include advanced IT systems for tracking transactions. a robust framework for compliance and enforcement, and a comprehensive taxpaver database. The integration of the mobile money transaction levy into ZRA's portfolio is anticipated to streamline the collection process, reduce administrative overheads. and potentially increase compliance rates through more effective enforcement mechanisms. Although it is not clear how the ZRA will collect this levv.

17. Insurance Premium Levy

Business impact

The shift to an Electronic Invoicing System marks a significant improvement in the administration of the Insurance Premium Levy. However, the existing legal provisions still reference electronic fiscal devices, which were phased out in 2023. It is essential for the legislation to be updated to reflect this change, ensuring clarity and accuracy in tax management. The proposed amendment seeks to replace references to electronic fiscal devices with "Electronic Invoicing System," thereby eliminating ambiguities in the current legal framework and reducing potential conflicts between taxpayers and the tax authority

Contacts



Patrick Mawire
Partner, Tax
Tel: +260 211 378 308
Mobile: +260 960 344 106

Email: patrick.mawire@zm.ey.com



Mark Libakeni
Partner , Audit
Tel: +260 211 378 308
Mobile: +260 962 327 583
Email: mark.libakeni@zm.ey.com



John Sakala Partner , Audit Tel: +260 211 378 362 Mobile: +260 976 532 640 Email: john.sakala@zm.ey.com



Towera Temba - Nkanza Associate Director, Tax Tel: +260 211 378 317 Mobile: +260 961 875 454 Email: towera.tembankanza@zm.ey.com

EY Zambia
EY Place
Plot Number 35483 Alick Nkhata Road Lusaka 10101 Zambia
Tel: +260 211 378 300 | Fax: +260 211 378 302
Website: info@zm.ey.com

EY | Building a better working world EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets. Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate. Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today. EY refers to the global organisation, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity, Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organisation, please visit ey.com. ©2024 EYGM Limited. All Rights Reserved This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.