

**Zambia Country
Correspondent
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1. 2013 BUDGET ANNOUNCED AND APPROVED

The national budget was presented to the National Assembly on Friday 12th October 2012 by the Honourable Minister of Finance, Mr. Alexander Chikwanda.

The following key Income tax and Value Added Act changes have now been enacted:

1.1 DEFINITION OF AGRO PROCESSING

A definition of agro processing has been introduced under the Income Tax Act. A business will now qualify to be an agro processing entity, if it meets the following conditions:

- i) the farming produce must be produced in Zambia.
- ii) the end product from the processing must be food other than alcoholic and non- alcoholic beverages, sugar crystals, flour and maize meal. The intention of the law is to exclude all beverages in whatever form, all kinds of flour and sugar crystals.
- iii) the business must process unprocessed agriculture produce into a final food product. Therefore, it means that partially processed food products do not qualify.

Following this change, income for an agro processing business shall be taxed at the preferential rate of 10% and businesses will be allowed to claim wear & tear on machinery and implements at the rate of 50%.

1.2 DEFINITION OF COLLECTIVE INVESTMENT SCHEME

The tax law now provides for the definition of Collective Investment Schemes as provided for under the Securities Act. Another amendment has been made to exempt the Schemes from payment of income tax on condition that the income generated by the Scheme is paid out to the investors.

The participating investors shall be liable to pay tax on the income received on distribution.

In order to qualify as an approved scheme, the Scheme must be registered with the Securities and Exchange Commission as a collective investment scheme.

1.3 ALLOWABLE PENSION CONTRIBUTIONS

The allowable employee pension contribution deduction to an approved pension fund has been increased to K3, 060 from K1, 860 per annum.

1.4 TURNOVER TAX AND VALUE ADDED TAX THRESHOLD

The turnover tax and VAT registration thresholds have been increased to K800, 000 from K200, 000 per annum.

The increase in the threshold is intended to promote efficiency in tax administration and reduce the cost of tax compliance for micro, small and medium enterprises.

Businesses with a turnover of less than K800, 000 will pay turnover tax at 3% of the gross turnover on a monthly basis.

However, the following businesses will continue to be excluded from the turnover tax system:

- i) those carrying out mining operations
- ii) those carrying out consultancy
- iii) partnerships
- iv) under voluntary VAT registration

1.5 ASSESSMENT RULES

The Income Tax Act has been amended to restrict the raising of refund assessments to six years. A further amendment has been made to restrict to 6 years the time within which claims can be made for Pay As You Earn refunds.

This means that the claim should only be made within six years from the end of the charge year to which the claim relates.

1.6 DOUBLE TAXATION AGREEMENTS AND MUTUAL ASSISTANCE IN TAX MATTERS

The Income Tax, Value Added Tax and the Property Transfer Tax Acts have been amended to include provisions that will allow the Government of the Republic of Zambia not only to enter into Double Taxation Agreements but also enter into Tax Information Exchange Agreements (TIEAs) and Agreements on Mutual Assistance in Tax Matters (AMATMs).

1.7 TRANSFER PRICING

Effective charge year ending 31st December 2013, interest payments made by mining companies on loans or borrowings, shall also be subject to transfer pricing adjustments where the terms of the transaction are not at arm's length in addition current thin capitalisation rules.

1.8 TAX INCENTIVES

In a quest to streamline the granting of tax incentives, the effective date on which the five year tax holiday comes into effect has been changed as follows:

- i) Exemption for Withholding Deduction on Dividends - This has been changed from date of “first declaration” to “commencement of operations of the approved investment”

Government believes that this change in the law will provide a transparent and definitive start and end date for the 0% withholding tax incentive (tax holiday).

Prior to this amendment, dividends paid by a business enterprise operating in a priority sector, approved under the Zambia Development Agency Act, were subjected to withholding tax at 0% for a period of 5 years from the first date of declaration of dividends.

- ii) Company Tax - The zero percent tax rate on company tax for business enterprises operating in a priority sector, multi facility economic zone or industrial park has been changed from the date profits are first returned to the date of commencement of operations of the approved investment.

Another amendment has been made to empower the Commissioner General to withdraw the tax incentives in

circumstances where the investor fails or neglects to fulfill their employment pledge.

1.9 CAPITAL ALLOWANCES FOR BUILDINGS, IMPLEMENTS, MACHINERY AND PLANT AND PREMIUMS

The relevant provisions of the Income Tax Act on wear and tear have been amended to restrict businesses eligible to claim improvement allowance to those operating in the Multi Facility Economic Zones (MFEZs) or industrial parks declared under the Zambia Development Agency Act of 2006.

Prior to this amendment, any business approved by the Zambia Development Agency was eligible to claim improvement allowance at the rate of 100%.

1.10 MINING CAPITAL EXPENDITURE DEDUCTION

The Government has also reduced the capital expenditure deduction for persons carrying out mining operations to 25% from 100% per charge year and further restricted the deduction to the time when the equipment, plant or machinery is actually brought into use.

1.11 WITHHOLDING TAX ON INTEREST EARNED

In order to restore a culture of savings and investment, the requirement to deduct withholding tax from interest earned by individuals from savings or deposit accounts held with financial institutions has been removed.

However, any interest earned on any other accounts held with financial institutions other than savings or deposit accounts, and from any other sources within Zambia shall be taxed at the rate of 15% and shall be the final tax.

1.12 MEDICAL LEVY ON INTEREST EARNED

In line with Government's goal of restoring a culture of savings and investment, the Minister of Finance has further abolished the medical levy which was chargeable at 1% on interest earned on savings and deposit accounts, treasury bills, government bonds and other similar financial instruments.

1.13 WITHHOLDING TAX ON CONSULTANCY FEES AND ROYALTIES

Payments made to non-residents for management & consultancy services and royalties shall now be subjected to withholding tax at the rate of 20%. The withholding tax rate on royalties paid to residents has remained at fifteen percent.

However, management and consultancy fees paid to residents are not subject to withholding tax.

1.14 VALIDITY PERIOD FOR VAT CLAIMS

In the quest to streamline tax administration and reduce the risk of tax fraud, the VAT Act has been amended to limit to 6 months the validity period of documents in support of input tax claims.

This change reduces the validity period of tax invoices, import bills of entry, credit notes etc used for Value Added Tax claims from 12 months to 6 months.

1.15 PROPERTY TRANSFER TAX

The Property Transfer Tax Act has been amended to provide for payment of tax at 10% on the transfer of a mining right or an interest in a mining right.

The taxable value shall be the actual price or the value as determined by the Commissioner-General, whichever is higher of the mining right or an interest in a mining right at the time of transfer.