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2024 Tax Legislation Outlook in Zambia

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1. Introduction

1.1 In the aftermath of the National Budget Address by the Minister of Finance and National Planning Honourable Dr. Situmbeko Musokotwane, MP, setting out the fiscal landscape for Zambia from 1 January 2024 to 31 December 2024, this article explores some key tax measures proposed to shape the economic narrative under the overarching theme of "Unlocking Economic Potential”.

1.2 Set against the backdrop of economic uncertainties and global dynamics, this article sheds light on the legal framework and policy measures that signal the government’s intention to fostering a resilient and growth-oriented economic environment.

2. Tax Stability and Predictability Pledge

2.1 Embedded within the fiscal strategy is a commitment to maintaining tax and non-tax policies that are not only stable but also predictable. This commitment found explicit expression in the Minister’s address during the 2024 Budget presentation. The strategic approach involves streamlining incentives, digitalising systems, and fortifying administrative capacities geared towards enhancing revenue collection. This forward-thinking approach is not just about maximising revenue, but it is also a strategic move to foster an investment-friendly environment. By maintaining stability and predictability in tax policies, the government sends a clear signal to businesses and investors, providing them with the confidence and assurance needed to make long-term financial commitments. In the ever-evolving landscape of economic dynamics, this commitment becomes a beacon, offering stability amidst uncertainties.

2.2 In essence, this pledge transcends the realms of budgetary commitments as it lays down a foundational framework that not only ensures fiscal responsibility but also actively contributes to the nation's economic resilience and growth. The confluence of commitments, fiscal transparency, and stability in tax policies positions the government to navigate the complex economic terrain with confidence and credibility.

3. Dimensions of Taxation in the Digital Era

With a discerning eye on the burgeoning digital economy, Zambia's legal landscape is poised to expand its tax base. Joining the Global Forum on Tax Transparency is a strategic move, aligning the nation with 140 jurisdictions for the exchange of tax information. This step not only ensures transparency but also combats illicit financial flows within the boundaries of international standards.

4. Unified Tax Administration

The canvas for 2024 unfurls with plans to introduce a unified Tax Administration Act, a masterstroke poised to harmonise tax treatment across different tax types. This initiative simplifies tax administration, aligning it with international standards and introducing provisions for whistleblower rewards. The Act, set to harmonise tax treatment and improve administration efficiency, aligns with the intended amendment of the Zambia Revenue Authority Act in 2024. This amendment specifically targets the establishment of a framework for rewarding whistleblowers, aiming to combat tax evasion and mitigate revenue leakages in line with international best practices.

5. Data Protection Act No 3 of 2021 Exemption

5.1 Recognising the pivotal role of data in modern tax administration, notably, the Zambia Revenue Authority is slated for exemption from the Data Protection Act. This strategic move enables the authority to access third-party data for improved tax compliance without hindrance.

5.2 This deliberate exemption empowers the Zambia Revenue Authority to navigate the landscape of data seamlessly, ensuring the confidentiality and integrity of sensitive information while fostering enhanced tax compliance. The synergy between data protection and tax administration, under the provisions outlined, forms a robust foundation for modern and effective fiscal management.

6. Direct Taxation and Revenue Concession Measures

The Budget 2024 unveiled significant direct tax measures aimed at providing relief, promoting local industries, and encouraging investment in rural areas. Below are key highlights of the proposed revenue concession measures.

(a) **Pay As You Earn (PAYE) Regime** - The envisioned changes to the PAYE Regime represent a crucial stride in addressing concerns over the tax burden on workers. The proposal encompasses a twofold approach, featuring an increase in the exempt threshold to K5,100 per month from K4,800 and a reduction in the top rate from 37.5 percent to 37 percent. This adjustment was designed to provide substantial relief to workers, thereby augmenting their disposable income within the established legal framework. The proposed adjustments, specifically elevating the exempt threshold and lowering the top rate, underscore the intent to alleviate the financial burden on workers, fostering a more balanced and supportive economic environment.

(b) **Local Content Allowance Extension** - The proposed local content allowance extension emerges as a strategic step toward bolstering local industries. By extending the 2 percent local content allowance to include sorghum and millet value addition, the government signals a commitment to leveraging indigenous resources for economic growth within legal frameworks. This measure encourages businesses to utilise local raw materials, fostering domestic value addition and aligning with sustainable economic practices. The move not only supports local industries but also underscores a dedication to creating a robust and self-sufficient economic landscape.

(c) **Rural Business Tax Concession** - The proposed rural business tax concession unfolds as a strategic move aimed at fostering economic development in rural areas. This initiative proposed an increase in the tax concession for businesses operating in rural regions, elevating it to 20% from the current 14.2% of the applicable Corporate Income Tax rate for the initial five years. Significantly, this concession extension across diverse sectors, excluding mining, underscores the government's commitment to legal frameworks that promote inclusive economic growth. By incentivising businesses to establish themselves in rural areas, the measure seeks to create a conducive environment for investment, aligning with broader economic goals and legal principles.

(d) **Accelerated Depreciation for Multi-Facility Economic Zones (MFEZ) Developers** - The government proposed an accelerated depreciation for developers which signifies a forward-looking approach to encourage and support additional investments. The proposed amendments will introduce a significant incentive, allowing for up to 100 percent accelerated depreciation on new implements, plants, or machinery. This measure, extending relief exclusively to MFEZ developers, aligns with the government's strategic vision to foster economic growth within established boundaries. By facilitating the depreciation of key assets, this provision seeks to stimulate and sustain investments in MFEZ’s, contributing to their development and reinforcing the legal framework supporting economic initiatives.

(e) **Tax Holidays for Cotton Value Chain** - The government proposed tax holidays for the cotton value chain which represents a strategic intervention in fostering the revitalisation of this crucial industry. With a forward-looking approach, the measures include a generous 5-year tax holiday on profits for local producers of cotton seed, a corresponding 5-year tax holiday for profits derived from the ginning of cotton, and an extended 10-year tax holiday for profits arising from the spinning of cotton and weaving of thread. The overarching objective is to breathe new life into the cotton industry value chain, strategically supporting the growth of the manufacturing sector. These measures, well-anchored within the legal framework, will not only provide substantial incentives for the stakeholders in the cotton value chain but also align with broader economic goals, signaling a proactive stance towards industrial development.

(f) **Mineral Royalty Withholding Agents** - The proposal to introduce Mineral Royalty Withholding Agents, as outlined in the Budget 2024, represents a pivotal step in fortifying the regulatory framework governing mineral royalty collection in Zambia. This strategic initiative, encapsulated in the proposed amendments to the Mines and Minerals Development Act, encompasses the appointment of specialised agents entrusted with the task of withholding and collecting mineral royalties. Empowering the Commissioner General to make these appointments aligns seamlessly with existing provisions under the Income Tax Act, creating a synergistic approach. The primary objective of this measure is to enhance compliance, particularly among artisanal and small-scale mines, ensuring that mineral royalty obligations are met within the confines of the law. By introducing this mechanism, the government aims to streamline the collection process, foster transparency, and strengthen adherence to regulatory obligations in the mining sector.

(g) **Electronic Invoicing System (EIS) and Exemptions** - the government proposed adjustments to EIS's and associated exemptions which underscore Zambia's commitment to modernising fiscal practices. The strategic measures outlined in the 2024 Budget involve a nuanced approach, beginning with the replacement of the existing definition of electronic fiscal devices (EFDs) with the broader EIS. This shift serves to expand the scope of fiscalisation, encompassing various modes and systems prescribed by the Commissioner General. Furthermore, the proposal introduces exemptions from mandatory electronic invoicing for businesses, acknowledging the diverse nature of enterprises or special circumstances as determined by the Commissioner General. These modifications are poised to facilitate a more inclusive fiscal landscape, accommodating specific business contexts while maintaining a robust legal framework. The overarching objective is to bolster fiscalisation processes, ensuring they align with legal parameters, while also providing flexibility for businesses to thrive within the evolving tax ecosystem.

(h) **Alignment of Penalties in Artisanal and Small-Scale Mining** - In a concerted effort to enhance equity and uniformity within the tax regulatory framework, the proposed alignment of penalties in the artisanal and small-scale mining sector stands out as a significant stride. This initiative meticulously aligns specific penalties within the artisanal and small-scale mining tax regime with the established benchmarks set for Turnover Tax. The primary impetus behind this alignment is to cultivate a fair and consistent penalty structure that resonates across diverse sectors. By eradicating disparities in penalty regimes, this measure not only fortifies the legal framework governing artisanal and small-scale mining but also fosters a sense of parity and impartiality within the broader tax landscape. The harmonisation of penalties emerges as a pivotal legal instrument, contributing to a more equitable and standardised approach to regulatory enforcement.

(i) **Pension Fund Definition Revision and TPIN Clarification** – the government proposed amendments concerning pension funds and taxpayer identification which signal a transformative trajectory for Zambia's fiscal landscape. The envisaged revisions encapsulate a strategic redefinition of the approved pension fund, bringing clarity to the approval process by designating the Pensions and Insurance Authority ("PIA") as the approving entity rather than the Commissioner General. This shift not only streamlines the regulatory pathway but also aligns with broader regulatory reforms.

Concurrently, a pivotal change involves the elimination of the mandatory provision requiring taxpayers to submit notices within 30 days of receiving their initial income. Instead, the emphasis is redirected towards obtaining a Taxpayer Identification Number **("TPIN")** and initiating registration at the inception of business operations. This adjustment not only simplifies procedural requirements for businesses but also ensures a proactive approach to tax compliance from the outset. Together, these modifications constitute a forward-looking strategy, fostering a more efficient, transparent, and business-friendly fiscal environment for all stakeholders. These adjustments aim to update definitions and streamline processes within legal frameworks.

7. Value Added Tax ("VAT") and Revenue Concession Measures

7.1 Within the realm of VAT, the 2024 Budget proposes a suite of legal measures aimed at enhancing efficiency, clarity, and compliance.

(a) **Navigating the Landscape of Electronic Invoicing** - The introduction of an electronic invoicing system in the 2024 Budget marks a significant milestone. This system, a software-based fiscalisation solution designed for VAT and other transactional tax types, serves as a cornerstone in sealing potential loopholes within the VAT system and other transactional tax mechanisms. The initiative goes beyond mere technological implementation; it is a strategic move aimed at enhancing taxpayer compliance and optimising the efficiency of tax administration systems. With a core objective of acting as a shield against fraudulent practices, especially concerning VAT refund claims, this innovation fosters a robust environment by ensuring real-time access to business transactions. In essence, it introduces a layer of resilience against potential instances of tax evasion, reinforcing the commitment to a transparent and sound fiscal framework in Zambia.

(b) **Increase in Claim Period for Hydroelectricity Generation** - The proposed amendment extends the period for claiming VAT refunds for hydroelectricity generation. The increase from the current 4 years to 7 years aligns with the average gestation period of such projects, allowing businesses to be refunded VAT incurred on eligible inputs before the commencement of operations over an extended timeframe.

(c) **Introduction of Definitions in Value Added Tax Act (the "VAT Act")** -The proposal introduces vital definitions in the VAT Act, including terms like "cross-border electronic services," "electronic services," "prescribed invoicing system," "imported service," "electronic invoicing system," "certified invoicing system," and "sales data controller". This addition is intended to support the taxation of both local and international electronic services and facilitate the implementation of the electronic invoicing system. These definitions are currently absent in the VAT Act.

(d) **Introduction of Provisions for Prescribed Invoicing System** - The amendment introduces a provision under Section 18(3) allowing taxpayers to use a prescribed invoicing system to issue invoices for the purpose of VAT input credit or deductions. This aligns the Act with the implementation of the electronic invoicing system, requiring taxable suppliers to possess invoices issued from a prescribed invoicing system for the deduction, credit, or claiming of input tax.

(e) **Replacement of "electronic fiscal devices"** -The proposed measure replaces the reference to "electronic fiscal devices" in specific sections of the VAT Act with the term "prescribed invoicing system." This strategic move supports the implementation of the electronic invoicing system, aligning with modern practices in tax administration.

(f) **Elimination of Section 8A on Electronic Service Supply** - the proposal seeks to eliminate Section 8A of the VAT Act related to the supply and accounting of electronic services. By doing so, it supports the taxation of electronic services in Zambia, eliminating the requirement for non-resident taxpayers to appoint a tax agent to account for VAT on electronic services. This streamlining encourages voluntary compliance among non-resident providers of electronic services.

(g) **Provision for Third-Party Information in VAT Regulations** - Aiming to enhance efficiency in tax administration and promote compliance, the proposed amendment introduces a requirement in the VAT Regulations for the provision of third-party information in the format prescribed by the Commissioner General. This measure aligns the VAT Act with the provisions of Section 48 of the Income Tax Act.

(h) USD Books of Accounts for Mining Companies - Another provision seeks to allow mining companies with not less than 75 percent of their gross income in foreign exchange earned outside the Republic to keep their books of accounts in United States dollars. This aligns the VAT Act with Section 55 (4) of the Income Tax Act and provides flexibility for taxable suppliers engaged in mining operations.

(i) **Conversion Rate for Dollar Transactions** - The amendment introduces the provision for the conversion rate of the Kwacha against the United States Dollar to be used for purposes of translating the books of accounts for VAT purposes. This aligns the conversion rates for dollar tax invoices, minimising exchange differences and ensuring consistency between income tax and VAT returns.

(j) **Threshold for Deregistration of Dormant Taxpayers** - A new provision introduces a threshold of up to K200 on outstanding liabilities/refunds for deregistration purposes of dormant taxpayers. Empowering the Commissioner General to deregister dormant taxpayers with outstanding tax liabilities or refunds of up to K200 from the VAT register streamlines tax administration. Currently, there is no threshold for VAT deregistration for dormant taxpayers.

(k) **Reinstatement of Exemption on Water and Sewerage Services** - In a bid to reinstate the exemption status on the supply of mains water and sewerage services, the measure seeks to reverse the standard rating introduced by Statutory Instrument No. 87 of 2022. The supply of mains water and sewerage services would be reinstated to its exempt status, aligning the VAT Act with historical practices.

7.2 These adjustments within the VAT and revenue concession framework signify a strategic move towards a more transparent, efficient, and modern tax administration system.

8. Customs and Excise Measures

8.1 The Minister also unveiled key Customs and Excise measures, ushering in a strategic alignment of taxation policies to stimulate economic growth and investment across various sectors. These measures reflect a comprehensive approach, encompassing the removal, suspension, or reduction of duties on selected goods and activities, coupled with targeted amendments to enhance compliance, facilitate trade, and align with global standards.

(a) **Promoting Exploration and Renewable Energy** - The government's commitment to fostering the exploration of oil and gas is evident in the decision to remove Customs Duty on machinery and equipment dedicated to this sector. A parallel initiative focuses on geothermal energy activities, further promoting renewable energy sources by eliminating Customs Duty on relevant machinery and equipment. These measures underscore the government's strategic vision to attract investment and support sustainable energy initiatives within legal frameworks.

(b) **Empowering the Media and Film Industry** - Recognising the pivotal role of the media, film, and music industry, the government introduces a visionary move by suspending Customs Duty on selected media, film, and music equipment for a period of three years. This initiative is poised to spur growth within the creative sector, attracting investment and fostering the development of local talent.

(c) **Supporting Local Assembly and Sustainable Transportation** - To incentivise local assembly and reduce transportation costs in rural areas, the proposal removes Customs Duty on motorcycles and tricycles imported in a complete knockdown form, provided that at least 5 percent of inputs are sourced locally. This strategic move aligns with the government's goal of encouraging local industries, supporting employment creation, and promoting sustainable transportation solutions.

(d) **Revitalising Small-Scale Breweries and Harmonising Excise Duty** - In a bid to foster growth in small-scale breweries, a 50 percent reduction in Excise Duty on locally produced clear beer is proposed for a three-year period. This initiative targets manufacturers producing less than 500,000 liters per annum. Additionally, the proposal aims to harmonise Excise Duty on alcohol of HS code 2207.20.90, addressing discrepancies in current rates and promoting fairness within the Excise Duty structure.

(e) **Strategic Moves in Transportation and Clean Energy** - The government aims to attract investment in the railway subsector by removing Customs Duty on the importation of rolling stock, including wagons and locomotives. This move aligns with the broader objective of shifting a significant portion of heavy and bulk cargo transportation to rail. Further encouraging the adoption of clean energy systems, the proposal eliminates Customs Duty on electric motor vehicles, electric buses, electric trucks, and related accessories. This strategic decision seeks to promote environmental sustainability, reduce reliance on fossil fuels, and align with global efforts towards cleaner energy solutions.

(f) **Facilitating MFEZ's and Enhancing Compliance** - The proposed extension of the validity period for Customs Duty incentives accessible by the developer of a MFEZ up to 15 years signifies a commitment to encourage sustained investment in these zones. Additionally, the introduction of penalties for offenses related to the Electronic Cargo Tracking system underscores the government's dedication to enhancing compliance, curbing transit fraud, and ensuring the smooth flow of legitimate cargo.

(g) **Streamlining Processes and Enhancing Oversight** - Several housekeeping measures were proposed to streamline processes and enhance oversight. These include amendments to the Customs and Excise Act to restrict the importation of high-alcohol content products, introduce security deposits for exports from bonded warehouses, and define irrecoverable debt conditions for debt remission. These measures collectively aim to bolster revenue collection, enhance trade facilitation, and provide a more robust regulatory framework.

(h) **Penalties for Electronic Cargo Tracking System Offenses** - The introduction of penalties related to the Electronic Cargo Tracking System ("ECT") emphasises the government's commitment to leveraging technology for efficient customs management. These penalties address specific offenses related to the abuse of electronic cargo tracking devices, ensuring compliance and reducing the risk of fraudulent activities in transit.

9. Tourism Levy and Invoicing System Integration

Expanding the horizon of taxation considerations, the government proposes to introduce a crucial provision which will mandate tourism enterprises or facilities registered for the Tourism Levy to use a prescribed invoicing system. The aim is to comprehensively record all transactions related to the Tourism Levy and issue tax invoices. By instating this measure, the government seeks to enhance transparency and compliance within the vibrant tourism and hospitality sector, aligning with the broader goals of the legal framework governing the Tourism Levy.

10. Conclusion

The outlined proposals to tax legislation for 2024 provide a glimpse into Zambia's fiscal roadmap, embracing principles of growth and transparency. These measures set the stage for a tax system that is not only robust but also adaptable. This article prompts reflection on Zambia's economic journey ahead, underlining the transformative impact these tax adjustments are likely to wield in sculpting a more prosperous future for the nation whilst providing a business-friendly environment.

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About:

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