

# What next?

## Zambia Budget

2019

### Welcome

*This PwC Budget bulletin summarises the Government's key proposals for 2019. It also includes our initial comments and analysis of the Budget proposals, which were presented by The Minister of Finance, Honourable Margaret Mwanakatwe (MP) to Parliament on 28 September 2018.*

*We hope that you will find it insightful, and look forward to your comments.*

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## Commentary

### *Time for Austerity?*

With Zambia's growing debt obligations making headlines in 2018, it is not surprising that the central theme in this year's budget is how to contain this debt.

In her first speech as Minister of Finance, Honourable Margaret Mwanakatwe (MP) ("The Hon. Minister"), reiterated Government's intention to introduce austerity measures first announced by the President, His Excellency Edgar Chagwa Lungu, in June. She acknowledged that Zambia needs to reduce its fiscal deficit and maintain a sustainable debt position if an increase in private sector development and poverty reduction are to be achieved.

Zambia's external debt stood at USD9.4 billion at the end of June, up from USD8.7 billion in December 2017, while Government guaranteed debt was USD1.2 billion. Meanwhile, domestic debt in the form of Government securities was K51.9 billion at the end of June, representing 19.2% of GDP. Domestic arrears amounted to K13.9 billion. Together, this brings Zambia's total debt burden to around USD17.2 billion, easily surpassing in relative terms the debt levels that qualified Zambia for the Highly Indebted Poor Countries debt relief scheme in 2005. At that time, Zambia's external debt stood at USD7 billion, while its domestic debt was around USD1.7 billion.

These burgeoning debt levels led the World Bank and the International Monetary Fund (IMF) to warn in late 2017 that Zambia is at high risk of debt distress.

The IMF has been in discussions with Government about providing Zambia with an interest free loan of USD1.3 billion, although to date no agreement between the IMF and Zambia has been reached. Hon. Mwanakatwe hopes that Government's austerity measures will reduce Zambia's risk of debt distress from high to moderate in the medium term.

### *Curtailing spending*

As part of these austerity measures, Hon. Mwanakatwe said in her budget speech – the Patriotic Front's eighth budget since it came to power in 2011 – that going forward Government will amongst other things, focus domestic resources on infrastructure projects that are at least 80% completed in order to reduce domestically-financed capital expenditure. She did not elaborate on what would happen to projects that were less than 80% completed. She also said Government planned to reduce domestic borrowing from 4% to 1.4% of GDP, reduce expenditure on administrative parts of the public service and control the growth of Government's wage bill, although details of how this will be achieved are vague.

In addition to the austerity measures, which were also outlined in the 2019-2021 Medium Term Expenditure Framework, published in August, Government has taken other steps to regain control of the country's finances.

Earlier this year, it enacted the Public Finance Management Act, 2018, which aims to improve fiscal prudence and provide punitive measures for those who abuse and misapply public funds. Additionally, Hon. Mwanakatwe said in her budget speech that she planned to revise the Public Procurement Act and the Planning and Budgeting Bill in an effort to improve management of public resources, as well as establish a multi-sectoral public investment board in 2019 to evaluate investment proposals.

If followed through, such initiatives would have a positive impact. In a World Bank report, *How Zambia Can Borrow Without Sorrow*, published in December last year, the organisation observed that the tragedy was not the recent build-up of debt but the "lack of productive assets Zambia can show from the borrowing" and urged Government to invest the proceeds of its borrowing shrewdly.

### *Economic fundamentals steady*

Despite growing concerns about the sustainability of Zambia's debt, the country's underlying economic fundamentals remain relatively stable.

The economy grew 3.4% in 2017 and is projected to grow at 4% this year, according to Hon. Mwanakatwe, led by improved performance in the mining, construction, manufacturing, and wholesale and retail trade, and supported by a more reliable energy supply.

## Commentary (continued)

This is more or less in line with global growth, which was 3.7% in 2017 and which is projected to rise to 3.9% this year. It is also higher than Sub-Saharan growth rates, which averaged 2.8% in 2017 and which are expected to rise to 3.4% this year, assuming the risks posed by a possible escalating trade war between the US and China and a strengthening US dollar do not materialise.

Zambia's economic growth has been partly fueled by improved copper prices, which averaged USD6,723 per metric tonne to the end of August 2018 compared with USD5,892 for the same period last year. More recently, however, prices have dipped to around USD6,000 per metric tonne.

Crude oil prices have also increased notably this year. The price averaged USD71 per barrel in the first eight months of the year compared to USD47 in the same period last year. Prices are currently around USD80 a barrel. With the upward trend in oil prices expected to continue for the rest of the year and the pressure on the Kwacha, economic headwinds in the form of higher fuel costs are likely.

### Sound monetary policy

Inflation and exchange rate movements have been kept mostly under control this year thanks to prudent central bank monetary policy. Inflation has remained in the 6%-8% bracket throughout 2018, rising to 7.9% in September 2018, while the exchange rate – until recent weeks at least – has been steady. However, inflation may rise if the recent depreciation of the kwacha, which has seen the currency fall from K10.2 to K12.2\* to the US dollar over the last month continues.

\*Exchange rate as at the time of budget announcement

Meanwhile, the Bank of Zambia policy rate was lowered to 9.75%, reducing lending rates to an average 23.5% in August. However, while an improvement, rates will need to drop further if lending is to support much-needed private sector growth. The Bank of Zambia has also announced that various bank charges will be abolished, which should reduce the cost of financial services, and support business expansion and financial inclusion.

### Main tax changes in 2019

An overview of the tax measures indicates that the focus has been to increase tax revenues from the mining sector. Mineral royalties rates for copper are to increase by 1.5 percent at all levels of the sliding scale, and an additional tier is proposed where a mineral royalty rate of 10% will be payable where copper prices rise beyond USD7,500 per metric tonne. Mineral royalty on cobalt will increase from 5% to 8%.

Additionally, mineral royalty tax will no longer be deductible as a cost for purposes of determining the taxable income. An import duty of 5% on copper and cobalt concentrates is to be introduced.

An export duty of 15% is to be introduced on precious metals including gold, precious stones and gemstones.

Whilst the majority of the mining sector will face an additional burden, companies that use the copper cathodes to add value will see a reduction in corporate income tax rate from 35% to 15%. This is to encourage value addition and creation of employment.

### Miners shoulder new tax burden

Whilst populist sentiment may be that it is appropriate to increase taxes in the mining sector, it should be appreciated that a volatile tax regime is not conducive to long-term investment. The impact on jobs, investor confidence and investment arising from the last spate of reactive changes to the mining tax regime between 2013 and 2015 should not be forgotten. It is also a great concern that the current pipeline of exploration projects has diminished significantly.

Furthermore, it must be appreciated that the Zambian economy is still highly dependent on the mining sector, which is dominated by only a handful of major mining houses. Any disinvestment or curtailment of operations by these companies would have a significant impact on the rest of the economy.

Given the country's difficult situation, Government may have taken a calculated risk by concentrating the revenue generation measures on the mining industry. However, this is a precarious measure as it renders the Zambian economy highly vulnerable to movements in commodity prices and global economic conditions.

## Commentary (continued)

### *Sales tax surprise*

A rather surprising tax measure proposed is the abolishment of the Value Added Tax (VAT) System, which is to be replaced by Sales Tax. The main objective for this is to enhance the contribution of consumption taxes to Government revenue. This move is somewhat inconsistent with the general global trend whereby most countries across the globe have moved away from a Sales Tax System. A Sales Tax is considered to be more vulnerable to tax evasion than a modern VAT system where revenues earned and expenditures incurred by businesses across the value chain can be easily tracked by the revenue authorities. Furthermore, introducing a Sales Tax could hamper free trade in the region as most countries have adopted a VAT system which is more conducive to easy movement of goods across borders. It is hoped that a detailed and comprehensive study has been carried out which properly considers the overall economic and administrative impact of a change in the system of taxing consumption.

Other notable tax measures include the restriction of interest deduction on loans. Interest deduction on loans will be restricted to 30% of the earnings before tax, depreciation and amortization (EBITA). This is in line with the measures proposed under the Base Erosion and Profit Shifting Action plan pronounced by the OECD.

### *Private sector under pressure*

The private sector is the main potential engine for economic growth in Zambia. Despite this, the sector faces an increasing number of obstacles that could hinder its development. Most notably, Government domestic borrowing continues to crowd out the private sector. Government says it will address this by dismantling arrears, although it has yet to give details as to how it will fund this.

The private sector also faces increased costs in light of the new 30% restriction on interest deduction on loans, as discussed earlier, plus the recent increase in minimum wages. Furthermore, continued kwacha weakness in light of Zambia's fiscal position and higher fuel prices could also weigh heavily on an already over-burdened private sector if these trends continue.

### *Devil in the detail*

While recent steps to address Zambia's debt problem are laudable, it remains to be seen whether Government will put words into action. Details of where and how Government will reduce public expenditure are not as yet forthcoming, although Hon. Mwanakatwe said in her budget speech she plans to present details during the current Parliamentary session of how debt-related austerity measures will be implemented.

For example, there is little mention in the budget about how Government might reduce the cost and improve efficiency of the country's cumbersome civil service. Nor is there information as to how Government will repay outstanding contractor debt and reduce arrears.

Furthermore, details of the debt situation beyond the headline figures remain sparse. Although the Ministry of Finance reports headline figures on a quarterly basis through economic updates, there is little breakdown in terms of debt performance, fiscal consolidation, creditors, interest rates, size of loans or repayment strategy. A more transparent, comprehensive and regular reporting and debt management strategy would be useful in gaining public support as Government seeks to get a handle of the debt situation.

With the high risk of debt distress that Zambia is faced with, the time for action is NOW!



## ***The economy***

### ***The Global economy***

Global economic growth is expected to be 3.9% for the 2018 calendar year compared to 3.7% in 2017. The growth trend is expected to continue through 2019.

### ***A bullish Trump America***

The US growth outlook is expected to be bullish in the near term, with growth projected at 2.9% and 2.7% for 2018 and 2019 respectively. This is buoyed by a robust fiscal stimulus package, resilient state final demand, as well as lower unemployment figures in over half a century.

### ***A feverish Eurozone***

Eurozone growth is expected to slow to 2.2% and 1.9% in 2018 and 2019 respectively. This is compared to 2.4% growth in 2017. This downward trend is as a result of sluggish manufacturing sectors output in Germany and France coupled with the general uncertainty surrounding Brexit.

### ***A sluggish but resilient China***

China is expected to achieve growth of 6.6% and 6.4% in 2018 and 2019 respectively, compared to 6.9% in 2017. Across emerging economies, growth is expected to reduce to 4.3% and 3.6% in 2018 and 2019, compared to 5.9% in 2017. Emerging Europe is also under pressure, notably given the Turkish debt problem with growth set to weaken to just above 4% in 2018 from 7.4% in 2017.

***“Dark economic clouds are dissipating into an emerging blue sky of opportunity”***

***Rick Perry***

## The economy (continued)

### A steady Sub Saharan Africa

Growth within the Sub Saharan African region is expected to quicken to 3.4% in 2018, compared to 2.8% in 2017. A further 0.4% surge in growth is expected in 2019 driven by strengthening commodity prices. Higher than expected performance for Nigeria has particularly rallied growth within the region, with that country's growth anticipated to leap from a flat 0.8% in 2017 to 2.1% and 2.3% in 2018 and 2019 respectively, defying WEO expectations. This is thanks to renewed optimism regarding oil prices. South Africa, on the other hand, anticipates a slowdown in economic activity driven primarily by the agriculture sector which will offset the positive growth in the mining sector.

### Commodity prices

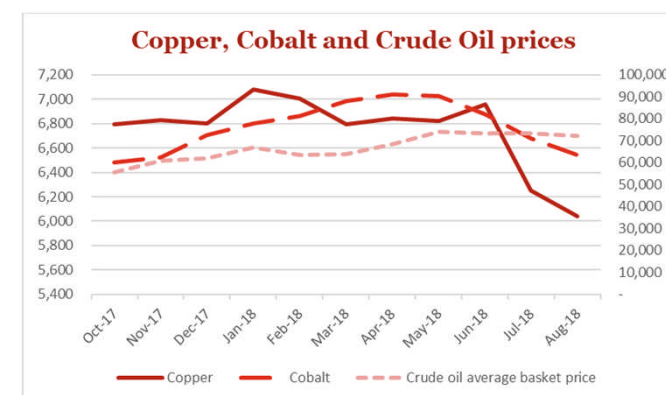
The continued global recovery resulted in improved commodity prices. Prices of crude oil, precious and semi-precious metals were also affected by heightened geopolitical risks, notably tensions around the Korean Peninsula, the continued unanswered questions in the Middle East, trade tensions between the United States, China, Europe as well as the continued dithering over the North American Free Trade Agreement (NAFTA).

### Commodity prices (cont'd)

Crude oil prices have been rising, and averaged USD71 per barrel in the first eight months of 2018 compared to USD49 per barrel in the same period in 2017. The price is now around USD80 per barrel. This upward trend is projected to continue for the rest of 2018. Copper prices on the other hand are expected to hover around USD6,800 per tonne in 2018, up from an average of around USD5,800 per tonne in 2017. However, this is expected to remain flat going forward, largely on fears of a general rise in costs and policy action in China that may result in lower imports and exports (World Bank Report, April 2018).

### The Cobalt rush

The previously obscure Cobalt has stunned markets with a wild surge in prices, rising from around USD25,000 per tonne in 2016 to a staggering USD62,749 per tonne in Q3 of 2018. This has been against growing demand from electric car makers Tesla and Volkswagen who are looking to secure long term supplies for use in their rechargeable batteries (Financial Times, 2018; London Metal Exchange). The surge in global Cobalt prices is expected to continue until global supply stabilizes and cutting edge electronics is confident of steady supply of the metal.



Source: LME, BoZ

## ***The economy (continued)***

### ***Global Risks***

Despite projected positive global economic growth, the global economy is known to be subject to a combination of geopolitical and economic risks. These have a potential to upset growth prospects for the global economy as well as threaten the growth of individual national economies – with the greatest ramifications likely to be shouldered by the world's smaller economies.

### ***Rising interest rates in USA***

Following the positive economic strides made by the United States and the expectation that the country is likely to take on more long term debt, the Federal Reserve Bank of the United States of America raised interest rates above the benchmark 1.75% - 2% as at 26 September 2018. There remains the possibility of another hike in Q4 of 2018. This could push up debt repayment costs for all US dollar denominated debt around the globe.

### ***China/USA trade tensions***

Over the course of 2018, the USA has intensified its aggressive protectionist policies by imposing tariffs on a range of imports from China. This has prompted a tit – for – tat reaction from its global trading partners. At the same time, the NAFTA is under renegotiation, as are trade agreements between the United Kingdom and its European partners. The uncertainties arising from the state of affairs may undermine business and financial market sentiment, disrupt global supply chains, and affect the prices of a wide range of commodities. This may undermine global growth.

### ***Brexit***

Other than occasioning feverish sentiment within global trade strata, the impending exit of the United Kingdom from the European Union (if it happens, when it happens), especially under a No – deal scenario, may have far reaching consequences on the UK's ability to continue providing development assistance to most underdeveloped regions of the world – particularly Africa. The UK will be faced with a divorce bill of around EUR 42 billion, expected to be carried over until the year 2064.

This is expected to cause the UK to realign a lot of developmental funding commitments to various parts of the underdeveloped world. The UK will also be expected to withdraw its USD600 million contribution to the European Development Fund, the world's largest providers of multilateral concessional aid.

***“Globalization and free trade do spur economic growth, and they lead to lower prices on many goods”***

**Robert Reich**

## The economy (continued) Zambia Economic Performance

### Gross Domestic Product

Zambia's GDP has remained relatively stable over the last three years. Growth rates achieved were between 3% and 5% with 2018 growth rates estimated at 4.0% (Medium Term Expenditure Framework, 2018).

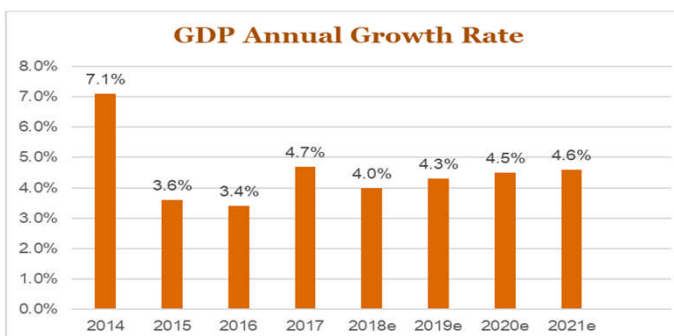
The Zambian economy is expected to grow between 4% and 5% over the next five years according to the 2019 – 2021 Medium Term Expenditure Framework. Growth is expected to be positive on the back of private consumption and fixed investment (BMI, 2018). The Wholesale and Retail industry makes up a significant share of Zambia's GDP contributing 18.4% in 2017 as indicated by the Central Statistical Office.

### Government will undertake an exercise to rebase the GDP

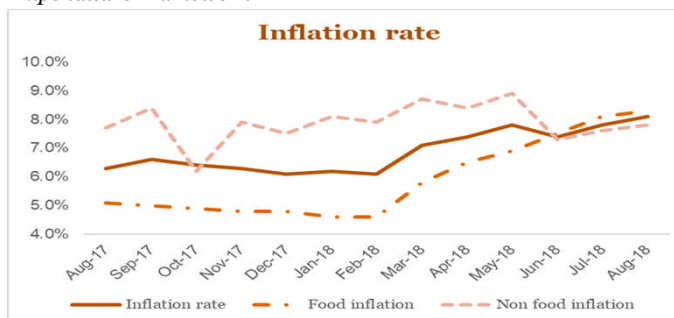
The Zambian economy still remains vulnerable to shocks which might derail the growth expectations. The economy is still largely dependent on Copper for export earnings and any significant change in the price is likely to have significant implications.

### Exchange Rate

The Zambian exchange rate remained relatively stable over the last year. This can be attributed to the stable price of copper which accounts for over 80% of Zambia's export earnings. However, significant depreciation has been seen in the month of September on account of low dollar availability, negative sentiments around the debt situation as well as the US hike of its interest rates.



Source: Zambia Development Agency, 2019 – 2021 Medium Term Expenditure Framework



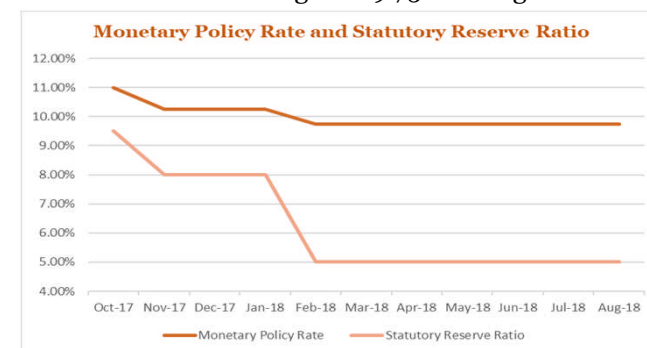
Source: CSO

### Inflation

The Zambian inflation rate has mostly remained stable and within the Bank of Zambia (BoZ) target band of between 6% to 8%. Food inflation has had a large impact on the overall inflation rate, with food inflation weighted at 53.4% of the overall inflation rate. The inflation rate has increased from 6.4% in October 2017 to 8.1% in August 2018. The inflation rate is largely impacted by movements in the exchange rate and changes in fuel prices. The Bank of Zambia attributes the increase to the increase in the supply of selected food items, general increase in transportation costs and the depreciation of the Kwacha against major currencies such as the United States Dollar and the Rand.

### Interest Rates

In its continuing effort to reduce interest rates and increase lending, the Bank of Zambia reduced the monetary policy rate in February 2018 to 9.75 which has since remained unchanged at 9.75% to August 2018.



Source: Bank of Zambia



## ***The economy (continued)***

### **Zambia Economic Performance**

#### **Domestic and International Borrowing**

Over the past few years, Government had embarked on an expansionary fiscal policy in order to develop public infrastructure such as roads, health facilities and schools. This policy has largely been financed by external and domestic borrowing, resulting in increased debt service obligations.

According to the Ministry of Finance;

- The external debt stock as at the end of the second quarter stood at USD9.37 billion, domestic debt stock at K51.86 billion, domestic arrears at K13.91 billion. The total public debt and arrears is USD15.95 billion representing 57% of GDP.
- The Guaranteed debt was USD2.7 billion of which USD1.21 billion had been drawn against the principal amount.

The impact of this significant rise in debt is that debt service costs now account for 27% of the 2019 expenditure budget up from 20% in 2018.

Continued depreciation of the local currency will result in even greater debt service commitments.

The Medium Term Expenditure Framework indicates funding of K658 billion for the Sinking fund in 2020. However, in the past the sinking fund has proved difficult to establish.

#### **Fiscal consolidation**

##### ***“Delivering fiscal consolidation for sustainable and inclusive growth”***

Responding to the current economic challenges, the Government is realigning its strategy to ***Delivering fiscal consolidation for sustainable and inclusive growth***. In this light The Hon. Minister of Finance has set out the following macro economic objectives:

- Attain annual GDP growth rate of at least 4%;
- Sustain inflation within the range of 6% to 8%;
- Raise international reserves to at least 3 months of import cover;
- Increase domestic revenue to not less than 18 percent of GDP;
- Reduce the fiscal deficit to 6.5% of GDP;
- Prioritise the dismantling of arrears and curtail accumulation; and
- Reduce the pace of debt accumulation and ensure sustainability.

#### ***Our view***

The Government has continued to borrow both locally and externally. The debt stock has increased to levels which put pressure on the Government's ability to meet other social obligations.

Increased local borrowing risks crowding out the private sector through increased cost of debt.

The need for ensuring that the fiscal consolidation measures as set out are met is evermore critical.

## The economy (continued)

### Zambia Economic Performance

#### Government expenditure

##### FY2018 budget performance

The Government has assessed that projected expenditure will be higher on account of higher interest payment and project loan disbursements. Consequently, the budget deficit is estimated at 7.4% of GDP against the target of 6.1%. The Ministry of Finance has, however, projected a reduction in the fiscal deficit to 6.5% of GDP in 2019.

##### FY2019 budget projected expenditure

The planned expenditure in FY19 is estimated at K86.8 billion (2018: K71.7 billion). This is an increase of 21%. Whilst the 21% increase in budgeted expenditure might, in isolation, be perceived to be in divergence with the objective of demonstrating fiscal discipline, the validity of such views should be assessed within the context of Government's other strategic objectives.

General public service expenditure is projected to increase by 21% from the prior year. Of the total budget of K86.8 billion, 27% representing K23.6 billion (2017: K14.24 billion) will go towards debt servicing of which K14.2 billion will be for interest payments. The Government has also increased the allocation to water and sanitation by 145% (K1.1 billion).

Notable reductions in allocations are :

- Road infrastructure from K8.6 billion to K6.5 billion,
- Farmer Input Support Programme & Strategic Food Reserve
- Drugs and medical supply

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Function	FY 18 K' billion	FY 19 K billion	Mov't %
Debt service	14.2	23.5	66%
Other General public service	11.7	7.8	-34%
Defence	3.5	5.1	45%
Public order and safety	2.1	2.9	34%
Economic affairs	17.3	20.7	20%
Environmental protection and recreation	1.9	1.2	-37%
Housing and community amenities	0.8	2.2	173%
Health	6.8	8.1	19%
Education	11.6	13.3	15%
Social protection	2.3	2.2	-4%
<b>Total</b>	<b>71.7</b>	<b>86.8</b>	<b>21%</b>

Source: Budget address, 2017 and 2018

According to the MTEF 2019 – 2021, Government is projected to spend about 47.1% (2017: 53%) of the total budget on its wage bill. The Government has set itself a target keeping the public sector wage bill within a target of 40% of domestic revenues by 2021. This will be achieved by restricting recruitment to only frontline personnel and ensuring that annual wage adjustments are made in the context of the resource envelope.

Failure to contain this will constrain Government's ability to undertake other developmental activities. Alternatively, Government would have to source alternative financing through either external or domestic debt. In the event of such a situation arising, the need to access increased funding from the domestic market should be balanced with the unintended consequence of crowding out private sector credit, which could in turn, jeopardize the Government's economic growth ambitions.

## The economy (continued) Zambia Economic Performance

### Revenue measures

With a 21% increase in the expenditure budget, The Hon. Minister undoubtedly had a difficult task of putting together this resource envelope. 24 months ago, the then Finance Minister stated that “we cannot spend what we do not have, we cannot borrow beyond our ability to repay.” As 62% of this increase accounts for additional debt service obligations, perhaps this resource envelope is a manifestation of the truth in that statement.

Tax revenues remain the largest contributor to the resource envelope and The Hon. Minister has taken bold policy steps to grow this further. The move to a Sales Tax regime is expected to result in an easier collection and administration process and consequently add a further K2.5 billion to the revenue pot. Personal income tax is expected to grow by K1.2 billion. As there have been no changes to the legislated rates, it is safe to assume that this is driven by a growth in the workforce as well as inflationary increments.

The Hon. Minister has also announced a number of changes that grow Income and Withholding taxes by a combined K1.8 billion. These measures include limiting interest deductible to 30% of EBITDA, realignment of WHT on dividend, interest and branch profits to 20% and changes to the tax regime of the flourishing casinos and betting sector.

The re-introduction of the flat rate turnover tax regime is positive but the ZRA is encouraged to iron out the administrative challenges associated with the withholding mechanism by tax agents.

### Compliance drive

Tax compliance and collection effectiveness remain significant challenges and the Minister has proposed a number of measures which include:

- Broadening the collection mandate of tax agents to include base tax, turnover tax, withholding tax on rental income and presumptive taxes;
- Continued roll out of Electronic Fiscal Devices;
- Digitization of revenue collection processes;
- Implementation of customs valuation database;
- Property taxation;
- Base erosion and profit shifting; and
- Enhanced taxpayer services

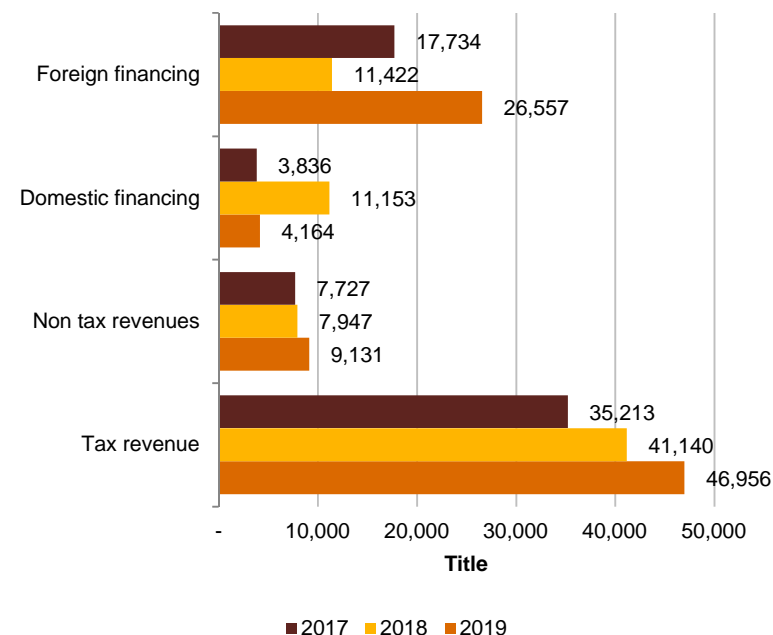
### Contribution of the mining industry

In these challenging times, The Hon. Minister has looked to the nation’s most productive sector and announced a number of changes to the mining tax regime, the most significant of which are; a 1.5% increase to the Mineral Royalty rates; non-deductibility of mineral royalty for income tax purposes; introduction of a 5% import duty on copper and cobalt concentrates; and a 15% export duty on precious metals and gemstones. On account of the inherent uncertainties in the sector, there is a risk that these changes may not deliver the desired outcomes.

### Debt financing

The Hon. Minister has reverted to foreign financing to fund the budget with K15 billion additional financing planned, largely comprised of Project loans. This would seem at odds with the macroeconomic objective of reducing debt accumulation and ensuring sustainability but needs to be viewed in light of the overall resource needs. Domestic financing has been significantly curtailed and this may have been influenced by rising yields and poor liquidity on the local market.

### Revenue Envelope



## Direct taxes

### Pay As You Earn

There have been no changes proposed to the existing personal income tax regime. Therefore, the following bands and rates will continue to apply in 2019 as follows:

Annual income (K)	Tax rate (%)
First 39,600	0
39,601 - 49,200	25
49,201 - 74,400	30
Above 74,401	37.5

**No changes to annual personal income tax bands and rates**

### Implementation of National Health Insurance Act

The Hon. Minister has indicated that the Government will commence the implementation of the National Health Insurance Act of 2018, in 2019.

This is to be implemented in a phased manner and should improve the access to health care services by citizens.

Under the Act, Employers will have various obligations, including:

- Registering their employees with the Scheme within 30 days of commencement of employment; and
- Paying an employee's contribution to the Scheme on a monthly basis (i.e. to include both the employer's and employee's contributions at a prescribed percentage).

The prescribed percentages and payment mechanisms are to be communicated by The Hon. Minister of Health.

Although the above measure may improve access to health care, it will increase the cost of doing business for employers. It will also have an immediate adverse impact on the net income received by employees.



## ***Direct Taxes***

### ***Withholding Tax***

The Hon. Minister proposes to increase the rate of Withholding Tax (WHT) from 15% to 20% on the following payments made to non-residents:

- Dividends;
- Interest; and
- The remittance of Branch Profits.

This measure is aimed at harmonising the WHT rate for the above payments with other payments to non-residents which already attract WHT at 20% (i.e. commissions, royalties, management and consultancy fees).

This measure will increase Government revenues. However, it will have an adverse effect on foreign based investors with formalised business activities in Zambia. This measure may also increase the cost of doing business in Zambia as the cost of credit may be impacted by the increased WHT rate.

***Increased WHT rates for dividends, interest and branch profits paid to non-residents***



## ***Direct taxes***

### **Corporate Income Tax**

#### ***Tax rate***

The corporate income tax rate remains unchanged at 35% for most industry sectors.

#### ***Reduction of Corporate Income Tax rate for companies that add value to Copper cathodes***

In an effort to encourage value addition as well as employment creation in the copper-subsector of the mining sector, The Hon. Minister has proposed for a reduction in corporate tax rate from 35% to 15% for companies that add value to copper cathodes.

In the interim, this measure may have a negative cash flow impact for the treasury. In the long term however, increased investment can be expected and may result in an increase in employment and export revenue from this sector.

#### ***Increase in document retention period for transfer pricing purposes***

The Hon. Minister proposes to increase the statute of limitations in respect of transfer pricing to 10 years from 6 years. This is intended to allow the Zambia Revenue Authority (ZRA) an extended period to enquire into and raise assessments beyond 6 years but not exceeding 10 years. The measure is an indication of Government's commitment to the prevention of abuse of transfer prices by associated enterprises.

The increased period is expected to assist with the facilitation of transfer pricing audits and reviews which normally take longer to conclude due to their complexity.

In addition to the above, the Hon. Minister also proposes to increase the penalty for non-compliance with transfer pricing regulations from 10,000 penalty units to 80,000,000 penalty units (i.e. from K3,000 to K24,000,000).

This measure is expected to increase transfer pricing reviews by the ZRA.

Further, the increased documentation retention period may affect other taxes given the integrated nature of transactions included under transfer pricing.



***Non-compliance penalty with transfer pricing regulations increased to K24,000,000***

## ***Direct taxes***

### **Corporate Income Tax**

#### ***Limitation of allowable interest for purposes of determining taxable business profits***

In order to curb base erosion and profit shifting by taxpayers through aggressive tax planning, The Hon. Minister proposes a new method of computing interest disallowed when determining the taxable profits of a business.

Under the proposed method, allowable interest will be limited to 30% of a company's earnings before interest, tax, depreciation and amortisation.

This measure is in line with the recommended approach under the Base Erosion and Profit Shifting (BEPS) Action plan 4 as proposed by the Organisation for Economic Co-operation and Development (OECD).

This is also expected to enhance domestic resource mobilisation.



It is however unclear whether this measure will only be restricted to interest payments, or whether it will be extended to other financial payments that are equivalent to interest.

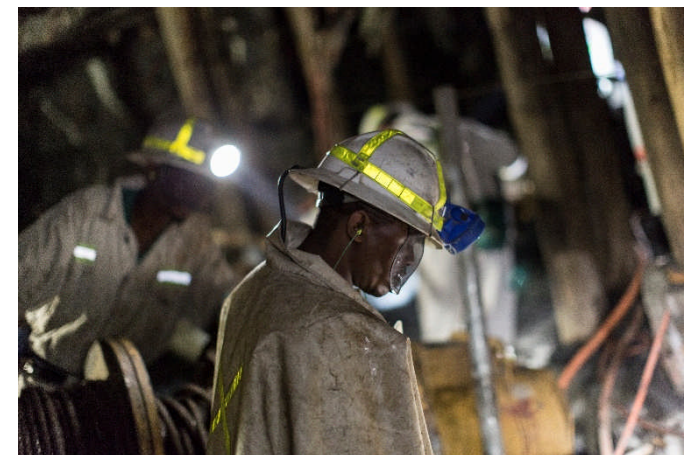
The proposed measures will likely address the following risks:

- The risk of multinational groups placing higher levels of third party debt in high tax countries;
- The use of intragroup loans to generate interest deductions in excess of group's third party interest expense; and
- The use of debt financing to fund generation of tax exempt income.

This measure is expected to shift the focus from the level of debt that companies can contract to the level of interest that is payable on borrowings.

The proposed measure will exclude businesses on the turnover tax system and businesses registered under the Banking and Financial Services Act.

Currently, the income tax legislation only provides guidance on the acceptable debt to equity ratio for mining companies at 3:1. It is unclear whether this proposed change will also affect the current accepted gearing ratio.



***Deductibility of allowable interest will be limited to 30% of a company's EBITDA***

## Direct taxes

### Corporate Income Tax

#### Appointment of tax agents for turnover tax

In order to enhance revenue collection under the turnover tax system, it is proposed that tax agents be appointed by the Commissioner-General to withhold turnover tax at source of goods and services supplied.

Similar to the withholding VAT agency regime, this measure may negatively impact the cash flow of taxpayers as well as increase the compliance burden of tax agents. The ZRA should put in place measures to reduce compliance burden.

#### Turnover Tax

The Hon. Minister proposes to replace the current presumptive turnover tax regime with a flat rate tax. The rate proposed is 4% on business turnover below K800,000 per annum. This will remove the current bands and presumptive amounts that were introduced in 2017.

This measure is expected to simplify the turnover tax system for small and medium enterprises and enhance compliance.

#### Abolishment of Casino levy and introduction of new tax regime on Casino, lottery, betting and gaming

Currently, a 20% levy is charged on casinos. The Hon. Minister proposes to abolish the levy and instead introduce a new taxation regime on casinos, lottery, betting and gaming. The following are the proposed rates:

Casino and live games	20% of gross takings
Casino machine games	35% of gross takings
Lottery winnings	35% of net proceeds
Betting	10% of gross stakes
Gaming	K250 to K500 per machine per month

The proposed taxation regime is expected to enhance regulation of the industry. In order to ensure effective implementation of the new regime, The Hon. Minister proposes to appoint the ZRA as an interim regulator for the gaming and betting industry.

Currently, the industry is regulated by the Ministry of Finance.

The proposed measures will effectively increase the cost of gambling and participation in lotteries and similar activities, but will increase Government revenue.

#### Reintroduction of flat rate turnover tax for business with turnover under K800,000





## ***Direct taxes***

### **Corporate Income Tax**

#### ***Housekeeping measures***

#### ***Abolishment of tax incentive for Sun International Limited***

The Charging Schedule to the Income Tax Act is proposed to be amended to abolish the tax incentive granted to Sun International Limited under the 1999 Development Agreement. The incentive gave Sun International and its successors a reduced CIT rate of 15% for an unlimited period of time and effectively an advantage over its competitors in the tourism industry.

The removal of this incentive is expected to level the playing field for hotels with similar standing as Sun International.

#### ***Clarification of income tax rate of non-traditional exports from farming or agro-processing***

Paragraph 5(c) of the Charging Schedule is to be amended to clarify that non-traditional exports arising from farming or agro-processing are taxable at a rate of 10%.

Currently, there is uncertainty as to whether non-traditional exports from farming or agro-processing are taxable at a rate of 10% or 15% (15% is the general rate applicable on all non-traditional exports).

#### ***Definition of “Approved Public Benefit Organisation”***

It is proposed that a definition of “Approved Public Benefit Organisation” be included within Section 2 of the Income Tax Act. The proposed definition is as follows:

*“Approved Public Benefit Organisation” means a public benefit organisation that has been approved by The Hon. Minister of Finance in accordance with Section 41 of the Income Tax Act”.*

The amendment seems to clarify that payments/donations made to public benefit organisations will only be deductible if the organisations are approved by The Hon. Minister of Finance.

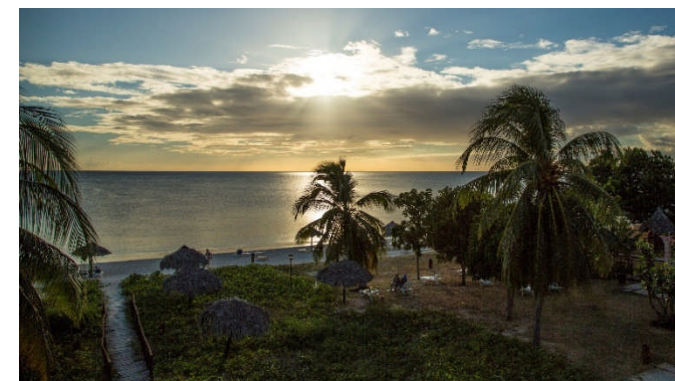
#### ***Income tax exemption available only to approved Public Benefit Organisations***

As a further point the Hon. Minister proposes to amend Paragraph 6 (1) and (2) of the Second Schedule to the Income Tax Act (ITA) to include the term “approved” to clarify that income tax exemptions under this Act are only available to organisations that have been approved by The Hon. Minister of Finance in accordance with Section 41 of the ITA.

This proposed amendment clarifies that for a public benefit organisation to qualify for tax exemption status, it should be approved by The Hon. Minister of Finance.

#### ***Clarification: 15% rate of tax applies only to income generated by approved Public Benefit Organisations***

In addition, the Charging Schedule is proposed to be amended under Paragraph 3 (1) (g) to clarify that the 15% income tax rate is only applicable to approved public benefit organisations rather than all public benefit organisations.



#### ***Definition of “Approved Public Benefit Organisation” to be included in Section 2 of the Income Tax Act***

## ***Direct taxes***

### **Corporate Income Tax**

#### ***Housekeeping measures***

#### ***Capital allowances granted on an annual basis***

The Hon. Minister proposes to amend Section 33 of the ITA to clarify that capital allowances are granted on a charge year basis (i.e. not apportioned) irrespective of whether the accounts are prepared for a period that is longer or shorter than a charge year.

#### ***Additional documents and records to be maintained by taxpayers***

The Hon. Minister has further proposed to amend Section 55 of the ITA to include the term “and other related documents” to the list of documents that taxpayers should maintain.

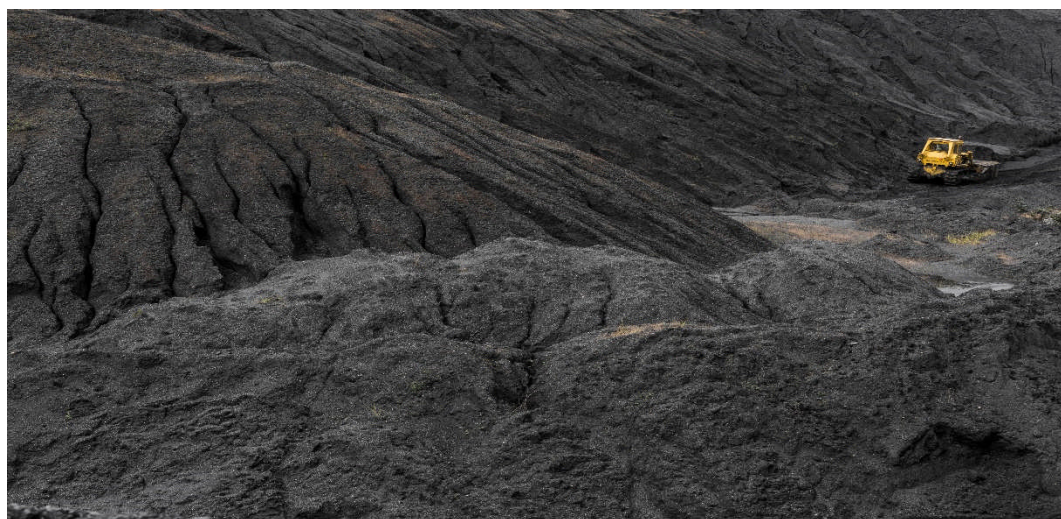
This measure is intended to clarify that all records in support of books of accounts such as contracts should be kept in English.

#### ***Non deductibility of contingent employee related benefit provisions***

The proposed amendment of Section 44 seeks to align the timing of contingent employee related provisions to the charge year in which tax payments under Pay As You Earn are made. This is expected to curb the potential abuse that may be associated with contingent provisions that are used to reduce chargeable income.

To clarify, specific provisions for employee related expenses will only be deductible in the year PAYE is paid on those expenses.

#### ***Documents kept in support of accounts to be kept in English***



## **Indirect taxes**

### **Value Added Tax (VAT)**

#### **Abolish VAT and replace it with Sales Tax**

It is proposed that Value Added Tax be abolished and replaced with Sales Tax. The Sales Tax will be non-refundable and Government expects the process to be simpler.

This measure is intended to enhance the contribution of consumption taxes to Government revenue.

This is likely to impact all businesses that provide and procure taxable supplies. The impact of the introduction of Sales Tax is that the tax will only be levied when the final sale in the supply chain is reached, i.e. on sale to the end consumer.

From a revenue perspective, in theory, the revenue that would be generated from Sales Tax and VAT should be the same assuming the tax base and tax rate are identical. Notwithstanding this, the audit trail under VAT is stronger than under Sales Tax and it is thus generally viewed as being more vulnerable to evasion than VAT. It is therefore questionable whether The Hon. Minister will achieve her objectives of improving revenue contributions and minimizing revenue leakages.

Whilst, it may seem that Sales Tax will be simpler to administer, practically it could be more difficult and less neutral as the determination of which transactions/ entities/ products are exempt from Sales Tax could be subjective.

It is therefore important that specific legislative provisions are put in place to define who should be taxed on what, where, when and to what extent. The impact of this tax on regional integration on trade must also be considered.

#### **Steps to be taken towards abolishment**

The Hon. Minister has stated that as Sales Tax is implemented, the Zambia Revenue Authority shall finalize audits of all outstanding VAT refund claims and enforce all outstanding VAT assessments in order to collect any unpaid taxes.

#### **Effective date**

A Bill is yet to be tabled in parliament for the introduction of Sales Tax and repeal of the current VAT legislation.

#### **Housekeeping measures**

The following are proposed amendments to the VAT Act:

#### **Definition of Electronic fiscal device**

The definition of “fiscal cash register” will be replaced with “electronic fiscal device” and defined as “an electronic device approved by the Commissioner General, which has a fiscal memory, capacity to generate and record tax invoices and other reports and to transmit invoice data in real-time to the Zambia Revenue Authority Tax Invoice Management System and includes a fiscalised electronic register, electronic fiscal printers and electronic signature devices”.

This measure broadens the definition as an electronic cash register is one type of electronic fiscal device.

#### **Prosecution of directors or managers of a company in case of offence**

Proposed amendment to the VAT act to make every director or manager of a company liable, upon conviction, for offenses committed by the company, as if the director or manager had personally committed the offence.

This measure brings in the practical aspects of charging a corporate entity so that a charge for an offence by companies is attached to the individuals responsible for its affairs.

#### **Treatment of trade and cash discounts**

The proposed treatment seeks to provide a legal basis for the current practice where unlike trade discounts, taxpayers are required to account for tax on the gross prices as opposed to the discounted price where they offer a cash discount.

This measure aims to align legislation with practice.

#### **Effective date**

The housekeeping measures are expected to take effect on 1 January 2019.

## **Indirect taxes**

### **Customs and excise**

#### **Introduction of excise duty on non-alcoholic beverages**

The Hon. Minister proposes to introduce excise duty of 30 ngwee per litre on non-alcoholic beverages. This is aimed at reducing the consumption of non-alcoholic beverages to lessen the associated impact of non-communicable diseases.

This change is likely to increase the costs of non-alcoholic beverages as manufacturers of such products may pass on the cost to the final consumer. The proposed increase in the excise duty may make local manufacturers uncompetitive hence the need for Government to put in place measures to protect local manufacturers.

#### **Increase in excise duty rate on plastic carrier bags**

The Hon. Minister proposes to increase the excise duty rate on plastic carrier bags from 20% to 30%. This is intended to discourage the use of plastic carrier bags due to its negative impact on the environment, and also encourage the use of bio-degradable bags. The change is a step in the right direction.

#### **Suspension of customs duty on Light Emitting Diode (LED)**

The Hon. Minister proposes to suspend custom duty on LED light. This is intended to promote the use of energy efficient bulbs to conserve energy.

It is also meant to bring the LED lights in line with custom duty exemptions granted to other energy efficient items like solar panels and batteries.

#### **Introduction of export duty on raw hides and skin**

The Hon. Minister proposes to lift the ban on export of raw hides and skin and introduce export duty of 10%. The lifting of the ban on the export of raw hides and skin is to promote value addition and investment in the leather industry.

#### **Increase in excise duty rate on used and retreaded tyres**

The Hon. Minister proposes to increase the custom duty on used and retreaded tyres from 25% or K3 per Kg to 40% or K5 per Kg. This is intended to discourage the patronage of used tyres in an effort to reduce road accidents. This measure may increase the price of used tyres.

#### **Increase in customs duty on powdered milk**

The Hon. Minister proposes to increase the customs duty on powdered milk in bulk for further processing from 5% to 15%. This measure is intended to prevent misclassification for custom duty purposes. This will adversely impact on manufacturers who use powdered milk as raw material and also increase the price to final consumers. The measure will however, increase Government revenue.

#### **Increase in the period of absence from Zambia to benefit from duty rebate**

The Hon. Minister proposes to increase the period of absence from Zambia from 2 years to 4 years for a returning resident to qualify for a duty rebate on imported motor vehicle. To qualify for a rebate on duty payable on imported vehicle, a Zambia resident individual would have to stay outside Zambia for a minimum of 4 years. This is part of the measures to streamline the prevailing tax incentives.

#### **Removal of custom duty rebate on the construction of shopping malls**

The Hon. Minister proposes to remove the rebates on duty on imported materials used in the construction of shopping malls. The aim is to reduce tax incentives and streamline the tax regime. However, this is likely to increase the construction costs of shopping malls and potentially reduce investment in the sector.



## ***Indirect taxes***

### **Customs and excise**

#### ***Increase in the Carbon Emission Surtax on transiting motor vehicles***

The Hon. Minister proposes to increase the Carbon Emission Surtax on all transiting motor vehicles in Zambia as follows:

<b>Engine capacity (cc)</b>	<b>Current rate (Kwacha)</b>	<b>Proposed rate (USD or Kwacha equivalent)</b>
Motor cycles	50	10
0-1500	50	10
1501-2000	100	20
2001-3000	150	30
Above 3001	200	40

#### ***Operation of duty free shops in arrival halls***

The Hon. Minister proposes to allow the operation of duty free shops in arrival halls at international airports within Zambia to enable passengers to purchase goods duty free. This is to provide similar incentives given at the departure halls of international airports in Zambia.

#### ***Amending the definition of “Rural Area” in the Customs and Excise (General) Regulations***

The Hon. Minister proposes to amend the definition of “Rural Area” to include other under-developed areas to enable them qualify for incentives to facilitate the Government’s rural industrialization programme. This should increase investment in rural areas that were not captured in the definition.

#### ***Introduction of Integrated Border Declaration Form to facilitate movement of transiting vehicles***

The Hon. Minister proposes to introduce an Integrated Border Declaration Form to replace the bill of entry for personal vehicles used by persons transiting Zambia. This is intended to facilitate the free movement of people and reduce the time spent at the borders as the existing arrangement causes unnecessary delay at the border.



## **Indirect taxes**

### **Mineral Royalty**

The Hon. Minister has proposed a number of changes to the mining tax regime. In her speech, The Hon. Minister indicated that the changes are for purposes of ensuring that Zambians benefit from the mineral wealth the country is blessed with.

#### **Deductibility of Mineral Royalty**

The Hon. Minister proposes that Mineral Royalty Tax should not be deducted in determining the taxable income of a mining company.

This measure will result in an increase in income tax payable given that gross revenue which is currently recognized as income is inclusive of the mineral royalty.

#### **Increase in the Mineral Royalty Rate on Cobalt**

The Hon. Minister proposes to increase the mineral royalty rate for cobalt from 5% to 8% of the “norm value” of cobalt.

Norm value is generally determined by reference to the London Metals Exchange (LME) price.

#### **Increase in Mineral Royalty Rate on Copper**

Whilst The Hon. Minister has maintained the sliding scale for purposes of determining the mineral royalty rate for copper, she has increased the mineral royalty rates applicable at each level; she has also introduced an additional level as follows:

<b>Norm Price range</b>	<b>Current rates</b>	<b>Proposed rates</b>
Less than USD4,500	4%	6%
USD4,500 to USD6,000	5%	7%
USD6,000 to USD7,500	6%	8%
Above USD7,500		10%

#### **Housekeeping measure**

The Hon. Minister has proposed to amend the Mines and Minerals Development Act to ensure that any person who is in possession of minerals will be required to account for mineral royalty tax were the supplier had not accounted for this.

## ***Mining tax regime***

### **Import and Export Duties**

#### ***5% Import duty on importation of copper and cobalt concentrate***

The Hon. Minister proposes to introduce a 5% import duty on importation of copper and cobalt concentrate.

Local smelters and refineries have in the past imported copper/cobalt concentrates to utilize excess smelting capacity.

The introduction of the import duty may result in under utilization of the smelting capacity where local supplies of concentrate are insufficient to utilize the current smelting capacity. This may result in job losses.

If the introduction of import duty does not affect the appetite to import concentrates then the measure should result in an increase in tax revenues.

#### ***15% export duty on precious metals***

The Hon. Minister has also proposed to introduce export duty on precious metals including gold, precious stones and gemstones at the rate of 15%.

#### ***15% export duty on manganese ores and concentrates***

The Hon. Minister further proposes to lift the 2012 suspension of export duty on manganese ores and concentrates and increase the duty from 10% to 15%.

This should essentially result in an increase in revenues generated from the sector.

#### ***Effects of the changes***

A key criteria for attracting investment in the mining sector is stability of the mining tax regime.

However, over the last several years, Zambia has seen several significant changes to the mining tax regime. These further changes are likely to dampen investment appetite in the Zambian mining sector.

***Introduction of import and export duties on importation and exportation of various metals, ores and concentrates***



## Tax data card

Corporate tax rates	2019	2018
Standard rate	35%	35%
Banks	35%	35%
Telecommunication companies		
Income not exceeding K250,000	35%	35%
Income exceeding K250,000	40%	40%
Farming or agro-processing	10%	10%
Income earned by producers of organic and chemical fertilizers	15%	15%
Export of non-traditional products from farming or agro-processing	10%	15%
Foreign earnings of Sun International Limited	35%*	15%
All other companies except mining companies	35%	35%
*The Hon. Minister proposes for the abolition of the incentivised Corporate Income Tax rate of 15% that was granted to Sun International Limited with effect from 1 January 2019.		
New listings on LuSE	2% discount	2% discount
New listings on LuSE > 33% shares taken up by Zambians	5% discount	5% discount
Listings on LuSE > 33% shares taken up by Zambians	5% discount	5% discount
The Hon. Minister proposes for the reduction of the Corporate Income Tax rate for companies that add value to copper cathodes from 35% to 15%, with effect from 1 January 2019.		
<b>Advance Income Tax</b>		
Advanced Income Tax (on importation of goods in the absence of a valid tax clearance certificate)	15%	15%

Corporate tax rates	
<b>Turnover tax levied on business with turnover below K800,000</b>	
(excludes passive income and income earned from consultancy service', property rental, mining and VAT registered businesses)	
	<b>2018</b>
K 0 - K4,200.00	3% of monthly turnover > K3,000
K4,200.01 – K8,300.00	K225/month (a)
K8,300.01 – K12,500.00	K400/month (b)
K12,500.01 – K16,500.00	K575/month (c)
K16,500.01 – K20,800.00	K800/month (d)
Above K20,800.00	K1,025/month (e)
(a) plus additional 3% of monthly turnover > K4,200	
(b) plus additional 3% of monthly turnover > K8,300	
(c) plus additional 3% of monthly turnover > K12,500	
(d) plus additional 3% of monthly turnover > K16,500	
(e) plus additional 3% of monthly turnover > K20,800	
	<b>2019</b>
Less than K800,000	4%

### Levies on casino, lottery, betting and gaming

The Hon. Minister proposes to abolish the 20% casino levy and introduce a new tax regime on casino, lottery, betting and gaming with effect from 1 January 2019.

	2019	2018
Casino live games	20% of gross takings	n/a
Casino machine games	20% of gross takings	n/a
Lottery winnings	35% of net proceeds	n/a
Betting	10% of gross stakes	n/a
Gamming	K250 to K500 per machine/month	n/a



## Tax data card

<b>Capital deductions***</b>	<b>2019</b>	<b>2018</b>	<b>Corporate Income Tax rate</b>	<b>2019</b>	<b>2018</b>
Investment allowance on industrial buildings**** (one off)	10%	10%	<b>Mining Profits</b>		
Initial allowance on industrial buildings**** (one off)	10%	10%	Profits earned from mining operations (for both base metals and industrial minerals)	30%	30%
Industrial buildings wear and tear allowance	5%	5%	Mineral Processing	35%	35%
Commercial buildings wear and tear allowance	2%	2%	<b>Mineral Royalty Rate</b>		
Implements, machinery and plant			On <b>norm value</b> of minerals/precious metals <b>under licence:</b>		
Used for farming and agro-processing	100%	100%	Base metals excluding copper and cobalt	5%	5%
Used for manufacturing, tourism, leasing	50%	50%	Cobalt	8%	5%
Used for electricity power generation	50%	50%	Precious Metals	6%	6%
Implements, machinery and plant- Other uses	25%	25%	On <b>gross value</b> of gemstones/energy minerals <b>under licence:</b>		
<b>Motor vehicles</b>			Energy/Industrial Minerals	5%	5%
Commercial	25%	25%	Gemstones	6%	6%
Non-commercial	20%	20%	On <b>norm value</b> of copper :		
<b>Farming</b>			Norm Price of copper < USD4,500/tonne	5.5%	4%
Farm improvement/ Farm works allowance	100%	100%	Norm Price of copper > USD4,500/tonne < USD6,000/tonne	6.5%	5%
<b>Carry forward of trading losses</b>	<b>No. of years</b>	<b>No. of years</b>	Norm price of copper > 6,000/tonne < USD 7,500/tonne	7.5%	6%
Non - mining companies	5	5	Norm price of copper USD 7,500/tonne and above	10%	-
Hydro and thermo power generation companies	10	10	Industrial Minerals: includes a rock or mineral other than gemstones, base metals, energy minerals or precious metals used in their natural state or after physical or chemical transformation. Examples include salt, sand, clay, talc, laterite, gravel, potassium minerals, granite and magnetite.		
Other power generation companies (wind and Solar) excluding wood	10	10	<b>Withholding Tax on dividends paid by companies carrying on mining operations</b>		

\* Excludes income from export of minerals, electricity, services and cotton lint exported without an export permit from Minister of Commerce.

\*\* Discount applicable to corporate tax rates and only available for the first year.

\*\*\* Capital allowances are computed on a straight line basis.

\*\*\*\* Investment and Initial allowance granted in the charge year in which the industrial building has been put into use.

	Resident	Non-resident
Dividend*	0%	0%

\* The above rates are unchanged from 2018.

## Tax data card

### Income Tax Individuals

#### 2019 Monthly income bands

	Income from K	Income to K	Tax rate %	Tax on band (maximum) K	Cumulative tax on income (maximum) K
<b>First</b>	0	3,300.00	0	0	
<b>Next</b>	3,300.01	4,100.00	25	200	200
<b>Next</b>	4,100.01	6,200.00	30	630	830
<b>Over</b>	6,200.00		37.5		

#### 2018 Monthly income bands

	Income from K	Income to K	Tax rate %	Tax on band (maximum) K	Cumulative tax on income (maximum) K
<b>First</b>	0	3,300.00	0	0	
<b>Next</b>	3,300.01	4,100.00	25	200	200
<b>Next</b>	4,100.01	6,200.00	30	630	830
<b>Over</b>	6,200.00		37.5		

#### Housing benefit taxable in the hands of the employer

Rate at which employees annual taxable emoluments disallowed 30%

#### Tax on car benefit is payable by the employer at the corporate tax rate based on the following scale charges:

	2019	2018
Engine size < 1,800 cc:	K18,000 p.a.	K18,000 p.a.
Engine size > 1,800 cc, < 2,800 cc:	K30,000 p.a.	K30,000 p.a.
Engine size > 2,800 cc:	K40,000 p.a.	K40,000 p.a.

Withholding Tax (WHT)	Resident	Non Resident
Dividend	15%*	20%*
Branch profits	n/a	20%
Interest	15%	20%*
Interest from a LuSE listed Property Loan Stock Co	0%	15%
Discount income (Interest) on Government Bonds	0%	0%
Coupon Income (Interest) on Government Bonds	15%	15%
Management or consultancy fee	15%	20%
Royalties	15%	20%
Rent from a source within the Republic	10%**	10%
Commissions	15%	20%
Non-resident construction and haulage contractor	n/a	20%
Non-resident entertainers/sports persons fees	n/a	20%

\*The above rates remain unchanged from 2018 with the exception of the rates on payments of dividend and interest to non-resident which has increased from 15% to 20% . 0% for dividends paid by LuSE listed companies to individuals.

\*\*This is the final tax on income from rentals.

#### Tax Treaties

Zambia has tax treaties with the following countries:

Canada, China, Denmark, Finland, France, Germany, India, Ireland, Italy, Japan, Kenya, Netherlands, Mauritius, Norway, Seychelles, South Africa, Sweden, Switzerland, Tanzania, Uganda, United Kingdom, Yugoslavia\*, Zimbabwe\*, Botswana\*\*

\*These treaties have not been ratified and are therefore ineffective currently.

\*\*Status of tax treaty currently uncertain.

Insurance Levy	2019	2018
Charged on Insurance Premiums*	3%	3%

\* The 3% levy is not applicable on reinsurance services effective 1 January 2018.

## Tax data card

### VAT

#### Taxable supplies- rate

Supply of goods & services in Zambia	16% / 0%
Import of goods & services into Zambia	16% / 0%
Export of goods & services from Zambia	0%*

\* services are deemed to be exports only when physically rendered outside Zambia

#### Registration

Threshold K800,000 p.a.

#### Payment- due date

Supply of taxable goods & services 18 days following the end of the VAT accounting period\*

#### Repayment- due date

Standard 30 days after submission of a VAT refund claim

\*accounting period typically means the month following the month of registration and each succeeding calendar month.

The Hon. Minister proposes the to abolish and replace the VAT with Sales Tax. Effective date is yet to be communicated.

Property Transfer Tax (PTT)*	2019	2018
Land (including buldings)	5%	5%
Shares**	5%	5%
Transfer or sale of mining right	10%	10%
Intellectual property	5%	5%
Shares listed on the LuSE	0%	0%

\*PTT is paid by reference to the nominal value of realised and open market value whichever is greater.

\*\*Effective 1 January 2018, the PTT at 5% applies on indirect change in ownership or control of a Zambian entity.

### Zambia Development Agency

#### Concessions for Priority Sectors

For the charge years up to 2017, the following incentives **may be granted** to an investor investing not less than USD500,000 in a priority sector or product in a Multi-Facility Economic Zone (MFEZ) or an industrial park or a rural area declared under the Zambia Development Agency (ZDA) Act in 2017:

- No Corporate Income Tax (CIT) on business profits for a five year period from the date of commencement of business operations.\*
- Withholding Tax (WHT) on dividends charged at 0% for a five year period from the date of commencement of business operations.\*
- 100% improvement allowance for tax purposes on capital expenditure for improvement and upgrading of infrastructure.

Note: Where the concessions were granted in previous periods, these may no longer apply, or if they do, may be varied.

\* Effective 1 January 2018, the 5 year income tax holiday has been replaced. This has been replaced by accelerated capital allowance deductions for qualifying investments in priority sectors. The removal of incentives affects both CIT and WHT.

### Carbon Tax

An annual carbon tax is payable on all motor vehicles as follows:

	2019	2018
Motor cycles	USD 10 p.a.	K 50 p.a.
Engine size < 1,500 cc	USD 100 p.a.	K50 p.a.
Engine size > 1,500 cc, < 2,000 cc	USD 20 p.a.	K100 p.a.
Engine size > 2,000 cc, <3,000 cc	USD 30 p.a.	K150 p.a.
Over 3,000cc	USD 40 p.a.	K200 p.a.
Vehicles propelled by non-pollutant energy sources	nil	nil

Validity period of the carbon emission tax certificate for vehicles in transit and those that enter for short periods is 90 days.

## Tax data card

### Presumptive Tax

Public Service Vehicle (PSV) operators are required to pay presumptive tax on each motor vehicle as follows:

Type of Vehicle	Tax per Vehicle per annum (2019)	Tax Per Vehicle per annum (2018)
64 Seater and above	K10,800	K10,800
50-63 Seater	K9,000	K9,000
36-49 Seater	K7,200	K7,200
22-35 Seater	K5,400	K5,400
18-21 Seater	K3,600	K3,600
12-17 Seater	K1,800	K1,800
Below 12 Seater	K900	K900

### Deadlines and Penalties

2019 Deadlines	Penalty	Interest
<b>Income Tax - Companies</b>		
<b>Provisional tax</b>	Provisional tax:	
Return deadlines:	Late filing of return:	
First Provisional Tax Return:	K600 per month or part month	
5 March 2019 (manual submission)		N/A
31 March 2019* (electronic submissions)		
* Returns for companies registered for income tax after 31 March are due 90 days from the date of registration		
Revision of Provisional Tax Return		
30 June 2019, 30 September 2019 & 31 December 2019 (where applicable)		
Payment deadlines:	Late payment of tax:	Late payment: 2% + DR*
Within 10 days following the end of the quarter	5% per month or part month	
	**Underestimation of tax:	N/A
	25%	
**Note: 2/3 of the total tax liability must be paid by the final quarter or else the 25% penalty applies.		
<b>Final tax return &amp; payment</b>		
Deadline:	Late filing of return:	N/A
5 June 2020 (manual submissions)	K600 per month or part month	
21 June 2020 (electronic submissions)		
	Late payment of tax:	Late payment: 2% + DR*
	5% per month or part month	
<b>Income Tax - Individuals</b>		
	Late payment of tax:	Late payment: 2% + DR*
	5% per month or part month	
<b>Final tax return &amp; payment</b>		
Deadline:	Late filing of return:	N/A
5 June 2020 (manual submissions)	5% per month or part month	
21 June 2020 (electronic submissions)	K300 per month or part month	

## Tax data card

Deadlines and Penalties		
2019 Deadlines	Penalty	Interest
<b>Withholding Tax (WHT)</b>		
Filing & payment deadlines: Within 14 days after the end of the month of accrual/payment	Late payment of WHT: 5% per month or part month	Late payment: 2% + DR*
	WHT late filing of return: K102 per month or part month (for companies) K51 per month or part month (for individuals)	N/A
<b>Payroll (PAYE)</b>		
Filing & payment deadlines: Electronic returns to be filed within 10 days after the end of the month of accrual/payment	Late payment of PAYE: 5% per month or part month	Late payment: 2% + DR
Manual returns to be filed within 5 days of after the end of the month	Late filing of PAYE return: K600 per month or part month	N/A
<b>VAT</b>		
Filing & payment deadlines: 18 days** after the end of the accounting period***	VAT late filing of return: Daily penalty – higher of K300 and 0.5% x tax payable	Late payment: 2% + DR
All annual Income Tax, PAYE and VAT returns should be submitted electronically to the ZRA except for certain small businesses with minimal transactions	VAT late payment of tax: Daily penalty – 0.5% x tax payable	
<b>Key</b>		
*DR = Bank of Zambia discount rate		
**Withholding VAT agents will be required to submit returns within 16 days after the accounting period effective 1 January 2018.		
*** accounting period means the month following the month of registration and each succeeding calendar month.		

Deadlines and Penalties		
2019 Deadlines	Penalty	Interest
<b>Turnover Tax</b>		
Filing & payment deadlines: Within 14 days after the end of the month of accrual/payment	Late payment of tax: 5% per month or part month	Late payment: 2% + DR
	late filing of return: K75 per month or part month	N/A
<b>Penalties</b>		
<b>Skills Development Levy</b>		
Offence	Current	Proposed
Negligence	17.5% of the under declared amount	0.25% of the under declared amount
Wilful default	35% of the under declared amount	0.5% of the under declared amount
Fraud	52.5% of the under declared amount	0.75% of the under declared amount

### Transfer pricing

The Hon. Minister proposes to increase the penalties for non-compliance with transfer pricing regulation to 80 million penalty units (K 24,000,000) from 10,000 penalty units (K 3,000 ).

## Sector analysis

### Mining

Mining sector growth has been positive due to the stability in power supply to the mining companies and higher commodity prices. The mining sector remains a priority for the Government.

The average copper prices for the 8 months to August 2018 and 2017 were USD6,722/tonne and USD5,948/tonne respectively, representing an increase of 13%. Copper prices were above USD6,700/tonne in the first half of the year but declined to below USD6,300 in July. The July 2018 price represented the lowest copper price since August 2017 when it was at USD6,478. This downward trend continued to the close of August 2018 with the price reaching USD6,039. The decline in copper prices was as a result of weaker demand from China on account of trade tension with the USA.

Although the growth prospects remain good, the concerns raised by various mining players in the recent past with regards to anticipated changes to the mining tax regime have materialized, following the revisions announced in the 2019 budget by Hon. Mwanakatwe.

The impact of the changes will be a key area of focus in the coming months.



The proposed changes are made with the aim of increasing revenue mobilisation through taxes with the ultimate objective of reducing the fiscal deficit. This is apparent in the Government's fiscal deficit target for the year 2019 which is reported to be 6.5% of GDP compared to the 2018 projection of 7.4%. Such changes to the mining tax regime may negatively impact the growth prospects of both the sector, including its planned future investments, and the economy at large.

Further, the Government has confirmed its intention to maintain its investment in the mining sector, with the continued country wide geological mapping with an additional 0.9% completed so far in 2018. This brings the total geological mapped area in the country to 61% and should provide mining players with the much needed information for further investment.

However, the Government continues to owe mining companies significant amounts relating to VAT refunds which may constrain further investment in the sector.

In the spirit of checking and ensuring compliance with the tax regulations by the various mining firms operating in Zambia, the ZRA, in the earlier part of this year, instituted tax audits of all mining firms spanning over a period of 6 years. In May 2018, the Authority further announced that it had completed a full customs audit of all major mining firms in the country but, did not provide any further details.

#### Our view

***New greenfield mines at risk*** – Considering that there hasn't been significant private sector exploration for new greenfield mines over the last 7 years, coupled with the relatively frequent changes to the mining tax regime in Zambia, there is a risk that performance of the sector may be challenged in the medium to long term.

## Sector analysis (continued)

### Energy

#### Electricity sub-sector

In the 2018 budget, Government committed the following for the electricity sub-sector:

- to complete the cost-of-service study for electricity, as a basis for further adjustments towards cost reflective tariffs;
- to enact the Energy Regulation Bill, the Electricity Bill and the Renewable Energy Feed-In Tariff Regulatory Framework, which would foster small and medium private sector investment in renewable energy and add 200 MW in the first phase;
- allocated K251.3 million for rural electrification towards completion of more extension grid lines (19 extension grid lines planned for period to 2021), as a way to improve access to electricity (31% of Zambia's population have access, as at September 2018);
- continue with the construction of major hydro electricity projects with short term targets of completion of Kafue Gorge expansion works (750 MW capacity) and EMCO Coal Project (300MW capacity) by 2019; and
- continue to work on linking Zambia to the Southern and Eastern African regions through the Zambia-Tanzania-Kenya inter-connector project, as a way to enhance electricity trade, improve power security, ensure reliability of supply and foster regional integration.

#### What next then in 2019 for electricity sub-sector?

Cost-of-service study, which was expected to be finalised in 2018, will continue in 2019. However, the Government has not communicated the revised completion date.

The Government has allocated K415.8 million for various energy power infrastructure specific projects and a further K182.5 million (2018: K251.3 million) has been earmarked for rural electrification.

To move towards making Zambia a net exporter of electricity, Government plans that in 2019, two 50 megawatts projects would be completed, with additional 1,050 megawatts (750 megawatts from Kafue Gorge Lower and also 300 megawatts from second phase of Maamba coal-fired thermal plant) expected towards end of 2019.

The rest of the medium to long term power projects mentioned in 2018 continue to be pursued, for which there is no significant change as regards expected completion timeframes.

To promote and ensure affordable access to off-grid efficient energy solutions, the Government has proposed to suspend customs duty on LED lights.

#### Our view: what to look out for

**Load shedding risk still exists** - There is a risk of load shedding/electricity supply restrictions. Zambezi River Authority's press release of 20 September 2018 predicted below normal rainfall in 2018/2019 rain season due to anticipated El Nino effects on the Zambezi river basin. If the 2018/2019 El Nino effects match the severity of the 2015/2016 El Nino, there may be minimal load shedding in 2019, considering that September 2018 lake water levels were at 11 meters above the minimum operating levels. To put this into perspective, the 2015/2016 El Nino caused approximately 4 meters average drop in Kariba Reservoir water levels on a year on year basis.

However, if 2019 El Nino effects spill into the 2019/2020 rain season, this may have a major impact on lake levels for 2020, and consequently increased load shedding risk if mitigating measures are not taken. Zambia's electricity supply mix continues to be significantly hydro based at over 80%.



## ***Sector analysis (continued)***

### ***Energy (continued)***

#### ***Petroleum sub-sector***

With respect to the Petroleum sub-sector, the Government's 2018 budget commitments included:

- Disengagement from the crude oil procurement process, aimed at improving efficiency and reduction of some costs for petroleum products; and
- Performance of a situational analysis of State Owned Enterprises (SOEs) which include energy firms such as Zambia Electricity Supply Company (ZESCO), INDENI and TAZAMA pipeline, with the view to recapitalise well performing SOEs, unbundle operations from generation, transmission and distribution, and hiving-off those not deemed viable.

#### ***What next for Petroleum sub-sector in 2019?***

To enhance the regulatory framework governing the petroleum sub-sector, Government intends to take to parliament the Petroleum Management Bill, which will facilitate enhanced participation of the private sector.

In the medium term, the Government has re-affirmed its commitment to attract investment in the extraction of crude oil within Zambia, with an emphasis to grant more exploration licenses, but also continue to hasten the review of the Petroleum (exploration and production) Act Cap 440 of the Laws of Zambia.

The World Bank's September 2018 Zambia Economic Brief predicts a possibility that oil prices will increase (due to production losses arising from geopolitical events and production restraints by OPEC and non-OPEC producers), which would lead to an increase in oil prices by not less than 7% (BMI Research's July 2018 report on Oil price forecast). This would have a ripple effect on Zambia's fuel pump prices by more than the projected 7% global price hike, due to exposure to foreign exchange rates movements.

#### ***Our view: what to look out for***

##### ***Maximizing efficiency in crude oil procurement***

The disengagement of the Government from the procurement of crude oil as announced in the 2018 budget, is a quick win and if its implementation is completed, it should result in additional benefits to the sector and the broader economy through lower cost in fuel.





## ***Sector analysis (continued)***

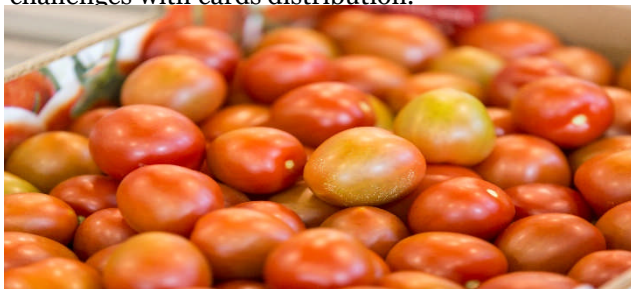
### **Agriculture**

Zambia's agricultural sector exhibits a dual structure, with a few large commercial farms, concentrated along the railway lines, co-existing with scattered smallholder farmers.

The Government has allocated K2.1 billion (2018: K2.7 billion) to the Farmer Input Support Programme (FISP) and Strategic Food Reserves, representing a 22% reduction from the 2018 budget, which may be an indication of the sector bearing the brunt of challenged budgetary support from donors.

While the FISP was fully implemented in 2017/2018 agricultural season, it experienced challenges which manifested in delays relating to; non-delivery of cards, crediting of farmer deposits as well as the allocation of the official allowances to farmer's accounts.

Other challenges included, lower number of Government field staff attending to farmers, wrong and duplicated NRCs, lost cards and forgotten PIN codes, incompetent point of sale operators and challenges with cards distribution.



As these challenges are being addressed in the 2018/2019 farming season, the Government intends to procure and distribute inputs to the affected parts of the country. It is expected that the affected districts will be re-introduced on the e-voucher system in 2019.

To enhance mechanisation in the agriculture sector, the completion of a USD100 million tractor assembly plant in Lusaka South Multi-Facility Economic Zone is on course. Upon completion, it is expected that farmers will be able to access cheaper farming equipment.

To facilitate a diversified and export oriented agriculture sector, the Government will facilitate access to both local and foreign markets for livestock products with strategic focus on exportation of goats to Saudi Arabia.

To support the establishment of cage fish farming, the Government has acquired 170 fish cages and 280 fish pens as well as motor vehicles and water vessels.

Generally, with the exception of wheat, commodity prices declined as the 2017/2018 farming season progressed. Maize, soya beans, and sunflower all recorded on average more than a 10% decline in the floor prices per tonne. This negatively impacted the cash inflows for farmers and their ability to plan for the 2018/2019 farming season.



### ***Our view***

While the agriculture sector is considered a priority, the budget spend has been on the decline. To improve access to financing, input delivery, curbing of animal diseases and marketing of produce, the budget allocation should exhibit a consistent upward trend.

Further, the floor prices set by Food Reserve Agency (FRA) for maize in particular, should have a widely accepted and transparent mechanism to demonstrate that it takes into account the changes in the real cost of inputs and additional costs incurred by the farmer.

## ***Sector analysis (continued)***

### **Manufacturing**

The manufacturing sector continues to be a major contributor to the country's GDP together with mining, construction, wholesale and retail trade sectors and is projected to remain so for 2018 and in the near future, reflected in the 2019-2021 Government medium term expenditure framework and 2019 budget.

The sector has recorded a positive growth, as noted in the president's speech during the official opening of the third session of the twelfth National Assembly. This growth has been recorded mainly in entities that are adding value to locally sourced inputs such as Zamefa in Luanshya, Zalco in Kabwe and Neelkanth Cable in Masaiti. In addition, Government projects such as the Multi-Facility Economic Zones and Industrial Parks have now gained momentum with a reported total investment of USD 3 billion as of June 2018.

To ensure that momentum gained in the sector is not lost, the Government in the 2019 budget has proposed various measures ranging from actual direct cash investments to implementing fiscal measures that, in combination, should support the realization of the value addition theme. These include the proposed investments in a pineapple processing plant in North Western Province, fruit processing in Eastern Province and cashew nut processing in Western Province.

Other measures introduced in the 2019 Budget include, the proposal to reduce the income tax rate to 15% from 35% for companies that add value to copper cathodes. Further, an introduction of excise duty of K0.30 per litre on imported non-alcoholic beverages as one way of promoting local manufacturing was proposed. The Government has also lifted the ban on exportation of raw hides and skins but has simultaneously introduced a 10% export duty.

While the above measures all point to a strong commitment to ensuring a strong manufacturing sector, Government's direct allocation to the sector remains relatively low compared to other sectors that the Government is focussing on. In the 2019 budget, the Government has allocated a total of K447.1 million to manufacturing related infrastructure (for Cashew nut infrastructure and the Zambia Aquaculture Entrepreneurship Project) from the K20.7 billion allocation to economic affairs.

With improved funding, the sector has the potential to make up for the significant imports recorded on such items as copper ores, chemicals and iron, food and vehicles.



## Sector analysis (continued)

### Education

Education and skills development is cardinal to the development of human capital required for national development. The budget allocation stands at 15.3% of the total budget representing a 3% reduction from prior year.

The Government, through the Ministry of Higher Education recently announced that it is seeking to recover outstanding loans from former students of The University of Zambia and Copperbelt University which were contracted from as far back as 2004. The Government plans to accrue interest at a rate of 15% per annum to account for the time value of money.

This became effective in September 2018. The composition of the loan is all tuition fees and meals, books, project and accommodation allowances.

The idea of a revolving fund is a move in the right direction in order to ensure sustainable development. This will enable access to the increasing number of would-be recipients that seems to be increasing at an increasing rate every year. If properly implemented after sufficient engagement with stakeholders, it is likely to achieve the desired results.

However, this has been received with criticism from various stakeholders. Mainly there is information asymmetry, as the individuals expected to pay back do not have sufficient information to enable them understand how the system will operate. Consequently, this is likely to result in apathy on the part of loan beneficiaries.

In 2019, the Government plans to continue upgrading, constructing and rehabilitating facilities at all levels of education. A programme to upgrade 500 existing basic schools to secondary schools will be undertaken from 2019 to 2022 using low cost construction design as a way to increase enrolments at secondary level.



#### Our view

**Revolving fund** - Some of the major challenges with the implementation of the repayment program include: limited resources; unemployment among loan beneficiaries; increased loans applications; inadequate system of tracking loan beneficiaries; immigration of loan beneficiaries; and inadequate policy and legal frameworks.

The Bursaries Committee should embark on aggressive public sensitization campaigns on the importance and benefits of the loan scheme and loan repayments.

**Supply/demand of skills** - While the Government is enhancing delivery of education, there is need to ensure employability and job creation remains a priority.

## ***Sector analysis (continued)***

### **Health Sector**

The key Government priority areas for 2019 in health will continue to be infrastructure development, human resource recruitments and development.

The Government has made positive strides in the recruitment of staff to: (i) operate the new health facilities; and (ii) supplement staff compliment at already existing health facilities. Between 2016 and 2018, the Government has recruited over 15,000 health workers. The Ministry took these steps with the help of cooperating partners.

In a bid to continue supporting the supply chain and distribution of health commodities delivery, the Government is working with cooperating partners such as Global Fund, USAID and European Union in the construction of regional hubs operated by Medical Stores Limited. The purpose of these hubs is to facilitate more efficient last-mile delivery of commodities to medical facilities. The completed regional hubs in 2018 included Mpika, Mansa, Choma and Chipata with Luanshya earmarked for completion this year. Construction in Mongu and Kabompo is expected to start in 2019. The infrastructure uplift also includes expansion of the main Medical Stores warehouse.

Other health infrastructure developments currently in progress include the upgrading of the Levy Mwanawansa Hospital into a University Teaching Hospital by the Government, which is intended to increase the output of skilled human resource in the health sector.

The Government has an ambitious target of achieving elimination of malaria by 2021. To achieve this, interventions such as indoor residual spraying and distribution of long-lasting insecticide treated nets are planned to be scaled up. This again would continue to be undertaken with the assistance of cooperating partners.

Lastly, in 2019, Government will commence the implementation of the National Health Insurance Act No 2 of 2018, this is planned to be in a phased manner and will ensure universal access to quality healthcare services.

#### ***Our view***

*Overall the budget allocation to the health sector has been maintained at 9% when compared to prior year. However, in monetary terms, year-on-year increment on the budget is 9.5% compared to the 2018 increment of 9.3%.*

## Sector analysis (continued)

### Water Supply and Sanitation

*The Government of Zambia aims at ensuring that there is reliable and affordable access to adequate, safe water and sanitation so as to improve social and economic well-being with due regard to the environment. The budget allocation to the water and sanitation sector has significantly increased from K565 million in the 2018 budget to K1,985 million in the 2019 budget.*

According to the 2019 – 2021 Green Paper, the Government intend to continue with the rehabilitation and construction of small and large dams for various water needs including domestic and agricultural use, and power generation. This will be done in order to enhance rain water harvesting and catchment protection. The Government also plans to continue the promotion of innovative ways of financing water development projects through Public Private Partnerships and encouraging private sector participation as a means of increasing investment in the sector. To this effect, a water resource mobilization strategy would be implemented.

The Government reported that significant progress has been made on the Lusaka Water Supply, Sanitation and Drainage project (funded by the United States through the Millennium Challenge Corporation), with works standing at 86% completion as at mid-August 2018. They plan to continue engaging cooperating partners with a view of securing concessional financing to extend the project.

In her budget speech, the Hon. Minister stated that Government has strengthened the regulatory framework in the management of ground water resources in order to protect and preserve the water resource from pollution and contamination. In this regard, through the Water Resource Management Authority (WARMA), Government will strengthen measures for effective water resource management.

Between October 2017 and March 2018, Zambia battled a severe cholera epidemic - a water borne disease. The Government's response to the epidemic was swift and effective, as judged by the reported decline in cholera transmission numbers during that time. Local Councils and Central Government collaborated with the World Health Organisation (WHO) and other partners to control the outbreak. In moving forward towards the elimination of cholera in Zambia, the Zambian Government has embarked on developing a National Multi-Sectoral Plan for Elimination of cholera by 2025. The priority areas include: the upgrading of slums and peri-urban areas, strengthening Local Government, enhancing the capacity of water utility companies and implementing the Health-for-All agenda.

In March 2018, The Hon. Minister for Water Development, Sanitation and Environment Protection, Dr Dennis M. Wanchinga issued three Statutory Instruments (SIs) on groundwater and boreholes, licensing of drillers and revised raw water fees and charges. These SIs introduce inclusiveness in the management of water resources by not only trying to safeguard surface water, but groundwater as well by banning the drilling of boreholes without authority.

#### **Our view: what to look out for**

Access to water and sanitation is a human right that the Government should ensure is enjoyed by all Zambian citizens.

In light of the above, it is positive to note that the budget allocation to this sector has increased by 251% between the 2018 and 2019. This should go a long way in ensuring that access to water and sanitation is improved.

## Sector analysis (continued) - Information and Communication Technology (ICT)

The Government has continued to assure its commitment and leadership in the Smart Zambia initiative to accelerate social and economic development in Zambia through ICT. This position also came out very strongly in the speech for the official opening of the third session of the twelfth national assembly by His Excellency the President of the Republic of Zambia, Edgar Chagwa Lungu.

### Leveraging ICT to achieve vision 2030

The Government continues to recognise the use of ICT initiatives as a major contributor to the developmental agenda. Based on this, the Government plans to leverage on the Smart Zambia initiatives to promote the use of ICT as well as enhance productivity and service delivery. Notably as part of the Seventh National Development Plan, the Government plans to:

1. Leverage the use of ICT to accelerate the diversification of the economy, particularly towards agriculture, manufacturing, tourism and energy, for example;
  - **Agriculture:** implementation of the e-voucher system which was rolled out to districts in the 2017/2018 farming season for improved efficiency, transparency and accountability in the administration of Farmer Input Support Programme. Out of a total of 804,260 farmers, 89% were able to access inputs.
  - **Tourism:** Implementation of the e-visa enhanced use of e-marketing platforms contributed to the 6.1% growth of the sector in 2017.
  - **Telecommunications:** The Government through a partnership with EXIM Bank of China, secured a USD 280 million loan to facilitate the construction of mobile towers in 2018. Thus far, 318 out of 1,009 towers have been constructed. Upon completion, it is expected that coverage will be improved from the current 84% to 95% of the country. Subsequently, this is expected to drive financial inclusion.
2. Public sector governance and service provision - Implementation of the e-Government systems to improve service provision, efficiencies, improve collection of both tax and non-tax revenue and cost reduction. These include:
  - an electronic payment system for public services has been implemented to enhance transparency and minimise leakages in the collection of non-tax revenues;
  - broadening the tax base and enhancing compliance levels through digitalisation of revenue collection processes;
  - implementation of an electronic cabinet system in 29 Ministries and 10 Provincial Administration offices resulting in over 85% cost savings for Government;
  - an electronic payslip system which has resulted in savings of K72 million since its implementation;
  - an electronic parliament system to enhance the interface between the legislature and the executive is planned for 2019; and
  - planned implementation of a case flow management system. This system is aimed at improving service delivery and addressing challenges in the provision of justice.

### Our view: what to look out for

**Cyber-security** is now among the top concerns for Governments, regulators and the private sector, particularly when it comes to key systems and infrastructure. With the Government deploying key systems and infrastructure, the cyber risk is heightened. Therefore, the Government should be more directly involved in implementing cyber security strategies to ensure the confidentiality, integrity and availability of information systems assets.

### Leveraging data for value

Given the deployment of many systems and adoption of the use of ICT for promoting the digital economy, there is an opportunity for the Government to leverage the value of data analytics including, collection, organisation, analysis and display of data. This will help the Government to assure and improve current operational performance, enhance reduction of costs and risks, inspire new operational models and services, and identify new paths to increase revenue and economical and social growth.

## Sector analysis (continued)

### Tourism

*With its capacity to support diversification of the economy, tourism remains an important sector. Its ability to generate income directly through tourist arrivals, as well as indirectly through creation of employment, means that the sector should remain a priority for the Government.*

The tourism sector has historically been challenged by poor support infrastructure and insufficient marketing. The Government has however strived to address these issues through various road development projects, with special focus on rehabilitating and maintaining roads to and within the major national parks, with the intention of facilitating all year round access to tourism sites.

Government initiatives being undertaken to expand the tourism base include the restocking of wildlife in areas where numbers have been depleted and the upgrade and expansion of Mulungushi International Conference Centre to enable the country to host the African Union Heads of State Summit in 2022.

The Government will also focus on the diversification of tourism products and promotion of domestic tourism.

With the intention to lengthen the average tourist stay, Government's key initiatives include:

- integration of the country's rich cultural heritage into tourism packages beyond traditional ceremonies.
- implementation of a strategy that targets citizens and residents, incorporating local festivals and fairs as well as promotional activities such as encouraging the implementation of lower domestic charges.

Zambia recorded an increase in tourist arrivals with 1.2 million arrivals being recorded in 2017 compared to 1 million recorded in 2016. The total contribution to GDP in 2017 also increased to 7.3% compared to 7% in 2016. The Government projects further increases once the Copperbelt Airport and the new Kenneth Kaunda International Airport are complete, which is anticipated to enable Zambia to be viewed as a regional air transportation hub and further promote tourism growth. A tourism levy introduced in 2017 is additionally intended to generate income for further spending on tourism infrastructure and marketing development.



## ***Sector analysis (continued)***

### **Transport**

The Government has continued to focus on the transportation sector as part of its revised 7th National Development Plan. The road sector continues to remain a priority area for the Government. Over the last year, the Government has embarked on some major road projects which includes:

- The Lusaka – Ndola Dual carriage way (USD 1.2 billion)
- The Lusaka Mega Road Project (USD 389 million)

The Lusaka – Ndola Dual carriage way has garnered a lot of public attention given the price tag. The road will cover approximately 321 km and will have several interlinks, which include the Lusaka/Kabwe road – T002 and the Kabwe/Kapiri Mposhi road – T002. It comes with additional infrastructure which include the Luanshya/Masangano Bridge, three toll plazas, one weighbridge, three service stations and an office building for the Road Development Agency.

In April of this year, H.E Edgar Chagwa Lungu launched the USD 389 million Lusaka Decongestion Project in Lusaka. The project is aimed at decongesting Lusaka city by building and expanding roads, bridges and overpasses. The project is to be completed in three years by Afcons International Limited.

In the 2019 budget, the Government has committed to continue the Link 8000 project and focus more on road maintenance. This maintenance will be funded by the National Road Tolling Programme, which currently stand at 14 in country toll stations, for which an additional 11 toll stations will be constructed in the year.



In the Aviation sector, the Government has two major infrastructure projects running. These are: the expansion of Kenneth Kaunda International Airport; and the Copperbelt International Airport, both projects are currently ongoing and expected to be completed in 2019. With increased capacity for air traffic, the Government has partnered with Ethiopian Airlines to launch a national airline in the near future. The initial investment of the deal is estimated to be USD 30 million. The airline will launch local and regional routes, with intercontinental routes to be added in the near future.



## **Sector analysis (continued)**

### **Social Protection**

The Government of Republic of Zambia views social protection with the aim of empowering low capacity households, supporting vulnerable people to live decent lives. The Government has previously implemented a number of interventions aimed at social protection. In the 2018 budget, these included social cash transfer scheme; Farmer input support program enhancement; Food security pack enhancement; Home grown school feeding programme; Public welfare assistance scheme enhancement; Womens' development programme; Climate change and disaster risk reduction; and Pensions reforms.

The social protection programs in the past have been funded by donors and the World Bank. Some of the challenges that have been noted include the programs that are fragmented and reached only a small fraction of the poor and vulnerable, benefit levels were not adequate to make a significant impact on the vulnerable as a result they have not escaped the poverty trap to the level the programs intended to achieve. Recently there have been concerns by stakeholders regarding the administration of social cash transfers which the Government should aim to adequately address as appropriate.

The Government plans to enhance the monitoring of all social protection and empowerment programmes by implementing the Electronic Single Registry of Beneficiaries. The Registry will provide key monitoring and management reports required for decision-making.

The 2019 budget identifies the following programs that are needed for social protection:

- Social cash transfer scheme;
- Public welfare assistance scheme enhancement;
- Food security pack enhancement;
- Home grown school feeding programme;
- Womens' development programme;
- Youth empowerment;
- Early warning systems, Climate change and disaster risk reduction; and
- Resource Mobilisation for Climate.

The Government has allocated K2.2 billion towards social protection which is similar to the K2.3 billion that was allocated in the 2018 budget.



### **Our view**

The social protection and empowering programmes have led to households being able to afford more than one meal a day, more diet diversity, afford more shoes and clothes for their children, to attain some level of education and empower the small scale farmers.

However, recently there have been concerns by stakeholders regarding the administration of these programmes which the Government should aim to adequately address. These efforts should help reinstate the donor confidence in the administration of these programmes.

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