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ZAMBIA BUDGET 2014

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"MOVING FORWARD TO CONSOLIDATE GROWTH..."

1.0 BUDGET OVERVIEW

The October 2013 Zambia Budget Address for the year 1st January, 2014 to 31st December, 2014 was delivered to the National Assembly by the Minister of Finance and National Planning, Honorable Alexander B. Chikwanda, MP on Friday 11th October, 2013.

The theme for this years budget is

"MOVING FORWARD TO CONSOLIDATE GROWTH AND SOCIAL JUSTICE IN PEACE AND UNITY"

At the centre of the Government's plan is an ambitious job creation agenda in the agriculture, tourism, manufacturing, energy and construction sectors, so as to consolidate economic growth and promote social justice.

The Government intends to continue constructing multi-purpose dams and irrigation schemes as well as constructing silos in order to see the agricultural sector grow to its full potential. The Government also intends to support the fisheries and forestry industries.

During the course of 2014, the Government will continue to implement the road building programme which commenced last year. More progress is also expected on the upgrading of Zambia Railways. The Government is also proposing significant developments in the energy infrastructure, the health sector, education and water supply and sanitation sectors.

The Government has put policies and programmes in place to accelerate growth and diversify the economy with the aim of all Zambians benefiting from the nation's development.

"...AND SOCIAL JUSTICE IN PEACE AND UNITY"

2.0 BUDGET HIGHLIGHTS FOR 2014

2.1 DIRECT TAXES

- PAYE exempt threshold increased from K2,200 to K3,000 per month.
- Withholding tax to be extended to the distribution of branch profits to foreign companies.
- Withholding tax on public entertainment fees, commissions and contractors paid to non-residents will increase to 20%.
- Rental income to be excluded from turnover tax.
- Withholding tax on rental income to be reduced to 10% and will be a final tax.
- No withholding tax on debenture interest received from property loan stock held in a Lusaka Stock Exchange Company.
- Gaming, lottery and betting winnings to be subject to 20% withholding tax.

2.2 VALUE ADDED TAX

- Pre-booked tourist services to be standard rated.
- Tourist activities to be standard-rated.

2.3 CUSTOMS AND EXCISE

- Excise duty on airtime increased from 10% to 15%.
- Excise duty on clear beer increased to 60%.
- Import duty exemptions under a ZDA licence will no longer be granted to new license holders from midnight on 11th October, 2013 (except MFEZ).

2.4 PROPERTY TRANSFER TAX

- Property Transfer Tax to be increased from 5% to 10%.

THE BUDGET IN DETAIL

3.0 DIRECT TAXES

All of the following measures will take effect from 1st January, 2014.

3.1 PERSONAL TAX RATES

The exempt threshold for PAYE has been increased from K2, 200 per month to K3,000 per month.

Income bands per annum	Income bands per month	Tax rate (%)
First K36,000	First K3,000	0
Next K9,600	Next K800	25
Next K25,200	Next K2,100	30
Balance over K70,800	Balance over K5,900	35

3.2 WITHHOLDING TAX ON PAYMENTS TO NON RESIDENTS

In the 2013 budget, withholding tax on payments to non-residents on royalties, management and consultancy fees was increased to 20%. In order to align withholding tax rates on similar payments to non-residents, withholding tax on commissions, public entertainment fees and payments made to non-resident contractors has been increased from the current 15% to 20%.

3.3 DISTRIBUTION OF BRANCH PROFITS

To equalize tax treatment between branches and subsidiaries and prevent tax avoidance, withholding tax has been extended to profits distributed by branches of foreign companies.

Following this change, a definition of "branch profits" has been provided.

3.4 WITHHOLDING TAX ON RENTAL INCOME

In order to simplify the tax system and enhance compliance, withholding tax on rental income has been reduced from 15% to 10% and will be the final tax.

This has resulted in the amendment of the Income Tax Act to remove the requirement by the Commissioner General to include an assessment on rental income on which withholding has been deducted.

"WITHHOLDING TAX ON RENTAL INCOME REDUCED TO 10%"

3.5 TURNOVER TAX

Turnover tax on rental income has been excluded from the Turnover Tax Regime. Previously, businesses whose rental income was K800,000 and below were liable to pay turnover tax at 3%. They will now pay withholding tax at 10% and it is the final tax.

3.6 INTEREST ARISING FROM THE DEBENTURE PART OF A PROPERTY LINKED UNIT

Interest arising from the debenture part of Property Linked Unit paid to Zambian resident shareholders in any Property Loan Stock Company listed on the Lusaka Stock Exchange has been exempted from withholding tax.

Following this change, the definition of "Property Linked Unit" has been provided.

3.7 WITHHOLDING TAX ON GAMING, LOTTERIES AND BETTING

Winnings from gaming, lotteries and betting will now be subject to withholding tax of 20% and it will be the final tax. Previously such income was untaxed in the hands of the winners.

3.8 SUBMISSION OF PAYE RETURNS

The Pay as You Earn regulations have been amended to

- Remove the requirement for submitting an annual employer's return
- Individuals on direct payment schemes to now remit monthly payments as opposed to quarterly as is currently the case with persons working for institutions that fall under the Diplomatic Immunities and Privileges Act.
- Monthly returns to be signed by tax-paying agents.

The PAYE Regulations have been revoked and replaced to consolidate amendments made in the past to ease the administration and interpretation of the Regulations.

3.9 TRANSFER PRICING LEGISLATION

The transfer pricing regulations will be amended to align them to international best practices such as the new OECD guidelines framework in order to strengthen the current anti-avoidance provisions.

3.10 SHARE OPTION INCOME

The first schedule to the Income Tax Act has been amended to redefine and provide clarity on the definition of the benefit arising from share options and the applicable tax points.

3.11 PAYMENT OF INCOME TAX ASSESSED

The Commissioner General will have the power to determine when tax should be due for payment where a company is being wound up or a person is leaving the country or any other need arises. Previously the Act provided for the tax assessed to be paid within 30 days.

3.12 PROPERTY TRANSFER TAX

The property transfer tax rate has been increased from 5% to 10%.

"PRE-BOOKED TOURIST PACKAGES NO LONGER ZERO-RATED"

4.0 VALUE ADDED TAX ACT

4.1 RATE OF VAT
The VAT rate remains unchanged at 16%.

All of the following measures will take effect from 1st January, 2014.

4.2 STANDARD RATING OF ANCILLARY SERVICES AT THE PORT OF EXPORT
Previously these services were zero-rated.

4.3 STANDARD RATING OF GREEN GEL
The ethanol-based biofuel, green gel, will no longer be zero-rated.

4.4 STANDARD RATING OF ALL DISTINCT TOURISM SERVICES
Previously, tourism services such as game viewing, canoeing, helicopter tours, boat cruising, walking with lions etc were zero-rated when sold as part of a pre-booked package to a tourist. All of these services will now be standard rated.

4.5 STANDARD RATING OF PRE-BOOKED TOURISM PACKAGES
Pre-booked tourism packages sold to tourists will no longer be zero-rated. These tours will now be standard-rated with the exception of tours booked prior to the effective date of this measure.

4.6 CAVEAT ON LAND FOR PAYMENT OF TAXES
The Commissioner General will have the power to place a caveat on land to ensure that any unpaid taxes can be recovered.

4.7 AMENDMENT TO INCLUDE GRZ FUNDING AS ZERO-RATED
Previously only supplies paid from donor funds under joint projects with GRZ were zero-rated. This amendment extends the zero-rating to the GRZ funds as well.

4.8 UNCIRCULATED ZAMBIAN COINS
Uncirculated Zambian coins will be exempt for VAT.

4.9 TAX AND INTEREST ON VAT UNDER APPEAL
This measure will allow the ZRA to collect tax and interest on an assessment which is under dispute with the tax payer before the outcome of the dispute has been finalised.

4.10 IMPORTATIONS UNDER INTERNATIONAL CONVENTIONS
The VAT Exemption Order has been amended under Group 10 (a) to include supplies imported under International Conventions. This will only apply to goods in respect of which a rebate, refund or remission of duty is available under the Customs and Excise Regulations.

4.11 VAT EXEMPTION CLARIFICATION
The words 'domestic building' will be removed and replaced with the words 'dwelling house'. This clarifies that the sale or lease of dwelling houses is exempt whereas the development of dwelling houses is standard-rated.

"EXCISE DUTY ON AIRTIME INCREASED FROM 10% TO 15%"

5.0 CUSTOMS AND EXCISE

All of the following measures will take effect from 1st January, 2014.

5.1 EXCISE DUTY ON AIRTIME

Excise duty on airtime has been increased from 10% to 15%.

5.2 CUSTOMS DUTY ON COPPER BLISTER, COPPER POWDERS AND FLAKES, AND LAMELLAR STRUCTURES AND FLAKES

To harmonise the tariff treatment of products similar to those listed above, a customs duty of 15% has been introduced.

5.3 EXPORT DUTY ON SEMI PROCESSED METALS AND BASE METALS

An export duty of 10% has been introduced to encourage local value addition and to create employment.

5.4 EXCISE DUTY ON CLEAR BEER

Statutory Instrument No. 23 of 2010 which suspended the excise duty rate on clear beer from 60% to 40% has been revoked. This results in the excise duty rate being restored from 40% to 60%.

5.5 CUSTOMS DUTY ON CRUDE OIL

Customs duty on crude oil has been removed.

5.6 AMENDMENTS OF SECOND SCHEDULE TO THE CUSTOMS AND EXCISE ACT

5.6.1 Deleting 'HS 3304.99.00' that denotes 'other cosmetics' and replacing it with 'HS 3304.99.90' to denote other cosmetics to correct a drafting error.

5.6.2 Deleting the word "vaseline" on the description of goods under the tariff heading 3304.99.10 to describe the product in generic terms as "petroleum jelly".

5.6.3 Amending the description under the Customs Tariff schedule of heading 3923.21.91 "bags" and 3923.29.91 "bags" in order to clarify that the bags that should be described under the above mentioned HS codes should be secondary plastic packaging used as shopping bags.

5.6.4 Converting excise duties charged on selected petroleum products from ad-valorem rates to specific rates.

"Customs duty on crude oil has been removed"

"EXCISE DUTY ON CLEAR BEER INCREASED TO 60%"

5.7 AMENDMENT OF SECTIONS 20,21,22 AND 23 OF THE CUSTOMS AND EXCISE ACT

These amendments allow for inward reporting and advance lodgment of electronic manifests for pre-clearance of imported goods.

5.8 AMENDMENT OF SECTION 32B (1) (A) AND (B) OF THE CUSTOMS AND EXCISE ACT ON PRE-CLEARANCE

The words "description in writing" are substituted with the words "declaration in a prescribed manner" with the view to providing a standardised declaration form as opposed to the requirements for a tax-payer to submit the relevant information in writing.

5.9 AMENDMENT OF SECTION 32(4) OF THE CUSTOMS AND EXCISE ACT

The number of days within which goods Removed In Bond (RIB) may be entered for consumption, warehousing or re-export has been reduced from 30 days to 15 days.

5.10 AMENDMENT OF SECTION 33(1) OF THE CUSTOMS AND EXCISE ACT

The period within which goods may be entered has been reduced from 30 days to 15 days.

5.11 AMENDMENT OF SECTION 62(2) OF THE CUSTOMS AND EXCISE ACT

The period after which warehoused goods become liable to seizure on expiry of the warehousing period has been reduced from 30 days to 15 days.

5.12 AMENDMENT OF SECTION 86 OF THE CUSTOMS AND EXCISE ACT

This amendment empowers the Commissioner General to amend the valuation assessment relating to excise duty on goods imported into Zambia.

5.13 AMENDMENT SECTION 162 (9) AND (10) OF THE CUSTOMS AND EXCISE ACT

The period for the "Notice of Seizure" has been reduced from 30 days to 15 days and the period for forfeiture from date of publication in the Gazette has been reduced from 45 days to 30 days.

"Electronic pre-clearance of imported goods has been introduced"

"PROMOTING SIMPLE AND EFFICIENT TAX ADMINISTRATION"

5.14 AMENDMENT OF SECTION 173 (3) OF THE CUSTOMS AND EXCISE ACT ON "BURDEN OF PROOF"

This is to include acceptance of electronic documents as part of admissible evidence.

5.15 INTERNATIONAL ORGANISATIONS ENGAGED IN DEVELOPMENT ASSISTANCE TO GRZ

The Third Schedule of the Customs and Excise (General) Regulations has been updated to provide for the inclusion of organisations that provide development assistance to GRZ and have been approved by the Minister of Finance to import their goods without the payment of duty.

5.16 PUBLIC BENEFIT ORGANISATIONS (PBOs)

Statutory Instrument No. 7 of 2009 (PBOs) Regulations has been amended to enhance controls in the management of the Scheme and streamline beneficiary organisations in line with the Government policy to rationalise the incentive regime.

5.17 AMENDMENT OF THE PROVISION UNDER REGULATION 85A OF THE CUSTOMS AND EXCISE (GENERAL) REGULATIONS, (1) (D)

The period within which the importation of household goods and personal effects imported by an administrator on behalf of a deceased person may qualify for duty free importation has been increased from 6 months to 12 months.

5.18 AMENDMENT OF REGULATION 88B OF THE CUSTOMS AND EXCISE (GENERAL) REGULATIONS

This amendment makes it mandatory for all ministries and implementing agencies to communicate any amendments made to the Bill of Quantities (BOQ) directly to the Commissioner General in order for the Zambia Revenue Authority to facilitate the importation of goods.

"ATTAIN COST EFFECTIVE SERVICE DELIVERY"

6.0 OTHER NON TAX MEASURES

6.1 INTRODUCTION OF SANCTIONS FOR ZDA LICENCE HOLDERS

Foreign and local investors with a Zambia Development Agency licence who violate the provisions under which their incentives were granted will face sanctions including the revocation of their investment licences.

6.2 INCENTIVES UNDER IMPORT DUTY FOR ZDA LICENCE HOLDERS

New ZDA licence holders will no longer be granted incentives under the import duty exemptions from midnight on 11th October, 2013 apart from licence holders in Multi – Facility Economic Zones, Industrial Parks and business enterprises in rural areas.

"Investors who violate the ZDA licence provisions will face sanctions"

"0.2% CHARGE WILL BE LEVIED ON MONEY TRANSFERS"

6.3 ENHANCE THE PROVISIONS RELATING TO ACCESS TO INFORMATION FOR TAX PURPOSES

The Income Tax Act will be amended to empower the Commissioner General to have access to any type of information required for tax purposes under the Legal Practitioners Act.

It will also be mandatory for financial institutions to provide banking transaction information for tax purposes to the Commissioner General if required.

6.4 CHARGE ON MONEY TRANSFERS

A 0.2% charge will be levied on money transfers to recipients both inside and outside Zambia.

6.5 ROAD TOLLS

Road tolls will be introduced on major roads. The tolls for commercial traffic will commence before the end of 2013 using the existing weighbridges.

"Road tolls will be introduced on major roads"

CONTACT US AT

BDO Lusaka
Counting House Square
Thabo Mbeki Road
PO Box 35139
Lusaka, Zambia

Tel: +260 211 252 836/909
Fax: +260 211 252 836/909
tax@bdo.co.zm
www.bdo.co.zm

BDO Livingstone
21 Obote Avenue
PO Box 60014
Livingstone,
Zambia

Tel: +260 213 322828
Fax: +260 213 322929
tax@bdo.co.zm
www.bdo.co.zm

BDO KItwe
38 Enos Chomba Road
Off President Avenue
PO Box 20067
Kitwe, Zambia

Tel: +260 212 221550
Cell: +260 955 221550
bdokitwe@bdo.co.zm
www.bdo.co.zm

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The information contained in this document and the enclosed bookmark is based on the Budget Address presented by the Minister of Finance and National Planning, Honorable Alexander B Chikwanda MP. This document provides an overview of the announcements made in the speech and information provided by the Zambia Revenue Authority. Whilst every effort has been made to ensure its accuracy, we are unable to accept responsibility for errors and omissions. It should be noted that the measures as introduced by the Budget Address are subject to Parliamentary approval. No financial decisions should be made based solely on the information contained herewith and no liability will be accepted for decisions based on its contents without further consultation with an official representative of BDO Zambia Tax Limited.