EY Zambia 2024 National Budget Analysis

Building a better working world

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EY Zambia is an integrated member of EY Africa, a member firm of EY Global, and a leader among the world's professional services organisations.

EY Zambia was established in 1997 with offices in Lusaka. The firm provides Auditing services, Advisory, Transaction Advisory, and Taxation services to local, listed, and international companies in a range of sectors including the banking and capital markets sector. Our firm is continuously growing and developing with changing technology.
Our grouping as part of the EY Global firm provides us with access to international resources and to new technologies, methodologies, and leading practices at a global level.

We define ourselves into four service lines:

- **Audit & Assurance**
- **Advisory Services**
  1. IT Risk Advisory Services
  2. Risk Advisory Services
  3. Fraud Investigation and Dispute Services
  4. Performance Improvement
- **Transaction Advisory Services**
- **Global Tax Advisory Services**

EY Global

The world is changing so rapidly that traditional ways of doing business are no longer sufficient. Now, more than ever, businesses need to act with the best knowledge possible and move forward with confidence in order to compete effectively.

A Global leader in professional services

EY is a global leader in assurance, tax, strategy, transaction and consulting services. With over 365,000 people worldwide in member firms across more than 150 countries who share a commitment to building a better working world, united by shared values and an unwavering commitment to quality, integrity and professional scepticism. In today's global market, the integrated EY approach is particularly important in the delivery of high-quality multinational audits, which can span nearly every country in the world.

Our services are as follows:

Assurance: We support our clients in building stakeholder confidence and trust by helping them manage regulatory responsibilities, mitigate risk, promote transparency and drive long-term sustainable growth.

Tax: Our tax services help clients navigate the dynamic tax environment and address their business issues. This includes harnessing the benefits of market trends and focusing on the role that the tax function can play in long-term business growth.

Strategy and Transactions: We help organisations manage their capital and transactions, including strategies to raise, invest, optimise and preserve capital. By managing their capital, organisations can define their competitive position and create social and economic value in the future.

Consulting: Our consulting services help organisations realise their social, economic and cultural value by helping them improve performance, manage their risk appetite and harness their people agenda. Our structure is composed of the Executive and Regions. The Executive includes our global leadership, governance bodies

and our four geographic Areas. Working together they oversee our global strategy, brand, business planning, investments and priorities. Our four service lines are represented and enabled by the four functions of Markets, Operations, People and Risk.

Our 24 Regions are grouped under three geographic Areas: Americas; EMEIA (Europe, Middle East, India and Africa) and Asia-Pacific.

This structure is streamlined allowing us to make decisions quickly, execute our strategy and provide exceptional client service wherever in the world our clients do business.

Our global structure means we can respond faster than our competitors. We can access the right people and assemble high-performing teams to deliver exceptional client service worldwide.

So, we're not merely a loose collection of national practices – we are a global organisation, unified in our approach.

Who we are

We are people who demonstrate integrity, respect and teaming, People with energy, enthusiasm, and courage to lead. People who build relationships based on doing the right thing.

Quality as a constant

While change has become a given in today's world, at least one aspect of the way we serve clients remains constant: the fundamental of imbedding quality in every aspect of our business. To us, "quality" means getting the right information, making the right judgements, taking actions, and maintaining the public trust.

EY - Tax

At EY, we believe that managing your tax obligations responsibly and proactively can make a critical difference.

We create highly networked teams that can advise on planning, compliance and reporting and help you maintain constructive tax authority relationships – wherever you operate. Our technical networks across the globe can work with you to reduce inefficiencies, mitigate risk, and improve opportunity.

Our tax professionals offer services across all tax disciplines to help you thrive in this era of rapid change. We combine our exceptional knowledge and experience with the people and technology platforms that make us an ideal partner for your tax-related needs.

Our hard work and leadership are widely recognised some recent awards include the 2023 International Tax Review Awards where EY won the EMEA Tax Compliance and Reporting Firm of the Year.

Our globally coordinated tax professionals offer connected services across all tax disciplines to help you thrive in an era of rapid change. We combine our exceptional knowledge and experience with the people and technology platforms that make us an ideal partner for your tax-related needs.

EY has competencies in business tax, international tax, transaction tax and tax-related issues associated with people, compliance and reporting and law. We invite you to leverage our experience, knowledge, and business insights to help you succeed.

Tax function operations

For today's Tax function to be fit to operate in the future, it must be connected.
Tax Smart Delivery is an EY NextWave imperative and is revolutionizing how we deliver Tax services. Tax Smart Delivery uniquely brings together the collective power of our people, innovation, data, and technology to make EY Tax more strategic, digitally advanced, and insightful.

Enabled by Standardisation, Centralisation, and Automation, Tax Smart Delivery is all about working smarter with technology, making our processes more efficient and effective, and teaming across our global network to create exceptional and transformative experiences for our EY clients and people.

2024 National Budget Overview

The National Budget Address for the fiscal year 1st January 2024 to 31st December 2024 was delivered to the National Assembly on Friday 29th September 2023 by the Honourable Dr. Situmbeko Musokotwane, MP, Minister of Finance and National Planning.

The proposed 2024 Budget amounts to ZMW177.9 billion or 27.8% of GDP compared to the 2023 Budget of ZMW167.3 billion or 31.4% of GDP suggesting a monetary increase of 6.3%. The 2024 Budget is themed **"Unlocking Economic Potential"** and it is focused on promoting economic growth through enhanced private sector investment, increase of production and productivity and improvement of public service delivery through economic transformation and job creation, human and social development, environmental sustainability and good governance environment, which are the thematic areas of the Eighth National Development Plan.

The country has made notable economic gains in the last two years and also reached an agreement with the bilateral creditors earlier this year as part of the efforts to bring under control the country's debt. In particular, the country's GDP has consistently been growing for the last two years. It is against this background that the 2024 Budget has been prepared.

In 2024, the national budget will be financed as follows:

ZMW141.1 billion
(2023: ZMW111.6bn)
Domestic revenue

ZMW3.4 billion
(2023: ZMW1.7bn)
Foreign grants

ZMW16.3 billion
(2023: ZMW15.58bn)
Domestic borrowing

ZMW17 billion
(2023: ZMW38.40bn)
Foreign financing

Performance of 2023 National Budget

The 2023 Budget was aimed at achieving socio-economic transformation by implementing measures to stimulate growth and ultimately improve people's livelihoods and was themed "Stimulating Economic Growth for improved livelihoods". Consistent with the 2024 and 2022 Budgets, the 2023 National Budget was premised on four thematic areas of the Eighth National Development Plan.

Through the 2023 Budget, Government provided policy framework and fiscal incentives to drive growth. The policies, strategies and measures contained in the 2023 Budget contributed towards unlocking local and foreign investment, promoting value addition and enhancing trade. This ultimately stimulated economic growth and contributed to creating jobs and improving livelihoods of the citizenry. Government continued to increase support towards social expenditures with the aim to take resources closer to the people in order to improve service delivery and involve citizens in decision – making.

The estimated total budget for 2023 was ZMW167.3 billion (31.4% of GDP) of which 66.7% of the amount was to be financed from domestic revenues while 23% was foreign financed.

In 2023, The Government's main aim was to consolidate and build on economic achievements on the economic front, under the following six (6) macroeconomic objectives:

i. Attain a real GDP growth rate of at least 4.0%;
ii. Reduce inflation to within the target band of 6-8% by the end of the year;
iii. Maintain international reserves above 3 months of import cover;
iv. Mobilise domestic revenue to at least 20.9% of GDP;
v. Achieve a fiscal deficit of not more than 7.7% of GDP; and
vi. Limit domestic borrowing to not more than 3.0% of GDP.

The Zambian economy has continued to grow for the third - year running albeit at a slower pace and is estimated to grow by 3.0%, slightly lower than the 2022 Budget projected growth of 3.5% and slower than the growth rate of 4.6% recorded in 2021.

The country's GDP is now projected to grow by 2.7% in 2023, slower than the 2023 Budget estimated growth of 4.0% compared to 5.2% and 4.6% in 2022 and 2021, respectively. Preliminary estimates by Zambia Statistics Agency, shows that the economy grew by 4.4% and by 5.0% in the first and second quarter of 2023, respectively from 2.8% and 5.9% in the first and second quarter of 2022, on the year-on-year comparison.

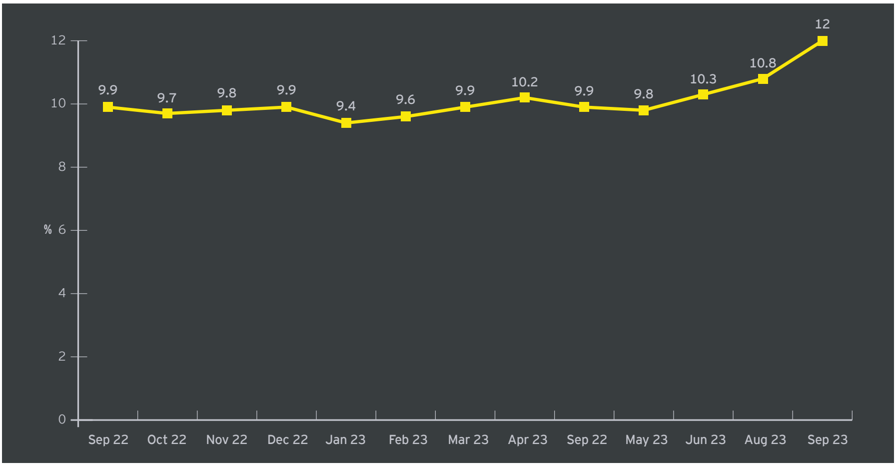
The slowdown is mainly attributed to reduced production in the mining sector on account of operational challenges and flooding in some of the major mines.

Growth is, however, expected to pick-up in 2024 and over the medium-term on account of expected increase in mining and agriculture output.

Overall annual inflation has edged upwards to 12.0% in September 2023 from 9.9% in December 2022 as shown in Figure 1. Clearly, the inflation rate is way above the target range of 6–8% envisioned in the 2023 National Budget. This has largely been driven by increases in prices of maize grain and meat products as well as the depreciation of the Kwacha against the United States Dollar. Prices of maize grain have edged upwards in 2023 because of increased demand in the region while the Kwacha has depreciated against the US Dollar because of low supply of US Dollars on the Zambian market coupled with increased demand for the US Dollars.

Overall annual inflation has edged upwards to 12.0% in September 2023 from 9.9% in December 2022

Figure 1: Annual Inflation Rate, Sept 2022 – Sept 2023 (%)



Source: ZamStats, 2023 Note: 2009 = 100

During the period under review, the exchange rate of the domestic currency against the Dollar has mostly been unstable. Between January and August 2023, the kwacha depreciated by 10.9% against the US dollar to ZMW20.05 per US Dollar. In particular, the Kwacha appreciated by 4.8% against the US dollar in the second quarter of 2023 and then, depreciated by 11.0% to ZMW19.48 between the end of June and August 22, 2023.

The appreciation of the Kwacha in the second quarter of this year was off the back of the report of successful debt restructuring agreement that was reached in May 2023. However, the finer details of the debt restructuring agreement are yet to be favourably concluded to pave way for the signing of the Memorandum of Understanding between parties, thus creating further uncertainty and volatility in the market. On the other hand, the depreciation of the Kwacha was mainly on account of strong demand while inflows, especially from the mining sector, reduced. To moderate exchange rate volatility and support critical imports, the Bank of Zambia continued to provide liquidity to the market during the period under review. In the second quarter, US$300 million was provided to the market, largely from mining sector tax receipts (US$242 million).

The country's gross international reserves amounted to US $2.9 billion as at the end of 1August 2023, representing 3.2 months of import cover. This was consistent with the set target for the period for the country to maintain international reserves for above 3 months of import cover. The country is, thus, poised to meet the target at the end of the year.

In 2023 Government envisioned to spend ZMW167.3 billion. However, Government now projects that total expenditure for the year will be below ZMW167.3 billion by 5.8% at ZMW157.5 billion. Preliminary data suggests that expenditures for the first half of 2023 amounted to ZMW76.2 billion, 7.4% below the target of ZMW82.3 billion due to expenditure rationalisation across most budget lines except expenses relating to assets and liabilities which was above target by 35.9%. Notable expenses incurred during the period include personnel emoluments at ZMW21.4 billion against a target of ZMW23.1 billion, Government operations at ZMW6.8 billion against a target of ZMW7.3 billion, transfers and subsidies at ZMW10.7 billion against a target of ZMW12.7 billion and social benefits at ZMW3.6 billion against a target of ZMW3.9 billion.

With regards to revenues and grants, Government planned to collect ZMW113.3 billion in revenues and grants from cooperating partners in 2023. Preliminary data indicates that these are now projected at above target by 5% at ZMW119.1 billion. Revenue collections are projected to be above target while borrowing, at ZMW31.1 billion, will be lower than the target of ZMW40.9 billion. However, during the first half of 2023, total revenues and grants amounted to ZMW57.3 billion, 0.4% below the target of ZMW57.5 billion, mostly due to under-performance from tax revenue. Tax revenues were below target by 6.4% at ZMW44.0 billion against a target of ZMW47.0 billion mainly on account of low payments of provisional income tax by mining companies due to lower copper production than projected and non-payment of liabilities by some taxpayers. Non-tax revenues and grants receipts on the other hand were above target.

In 2023, the overall budget performance is set to be favourable as expenditures have so far been below target revenues during the first half of 2023 but are expected to be broadly within the target by the end of the year. Expenditures so far have been within target, with priority placed on procurement of drugs, dismantling of arrears, social benefits, CDF and grants to schools, among others.

In 2023, the fiscal deficit is now projected at 5.8% of GDP, which will be below the target of 7.7% set in the 2023 Budget as a result of the expenditure, revenue and financing outturn. The Minister advised that the lower budget deficit outturn is reflective of Government's commitment to fiscal discipline.

With regard to the central Government's external debt in 2023, the stock of public external debt, excluding accrued interest arears and publicly guaranteed external debt, as at end-June 2023 increased marginally by 0.8% to US$14.07 billion from US$13.96 billion at end-December 2022. The increase was largely on account of disbursements by multilateral creditors. Total publicly guaranteed external debt, however, declined by 1.9% to US$1.43 billion at end-June 2023 from US$1.45 billion at end-December 2022. The stock of Treasury bills and Government bonds stood at ZMW 213.9 billion as at end-June 2023 from ZMW 210.0 billion as at end - December 2022, representing an increase of 1.9%. Further, the stock of domestic arrears marginally increased by 0.2% to ZMW77.8 billion as at end-June 2023 from ZMW77.6 billion as at end-December 2022.

The overall financial performance and condition of the banking sector remains satisfactory in 2023. The capital position was adequate and earnings performance was strong during the first half of this year. Asset quality was satisfactory, reflected in a lower non-performing loans ratio of 4.4% at end-August 2023, below the 10.0% prudential benchmark. However, lending by the banking sector slowed down to 6.4% in the first seven months of 2023 compared to a growth of 11.9% recorded in the corresponding period in 2022. The slowdown was due to reduced borrowing by Government. Growth in lending to the private sector, however, remained steady at 15.0%.

Generally, the Zambian economy has performed well this year amidst rising inflationary pressures particularly in the latter part of the year and periods of unstable exchange rate of the domestic currency against the Dollar. It is, however, evident that the Zambian economy has been stabilised and is on a positive growth trajectory, despite a reduction in the rate of growth. Notably, extensive work needs to be done to finalise the debt restructuring agreement and sign the Memorandum of Understanding with the bilateral debtors and conclude the debt restructuring negotiations with the private creditors.
It is further noted that progress towards reviving the mining sector has been made with the return of Konkola Copper Mines (KCM) to Vedanta. There are positive sentiments that the mine can return to full production and subsequently become a fully integrated vertical copper operation. Overall, progress has been made in achieving some of the socio – economic targets targeted for the fiscal year while other targets have not been met.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2024 National Budget

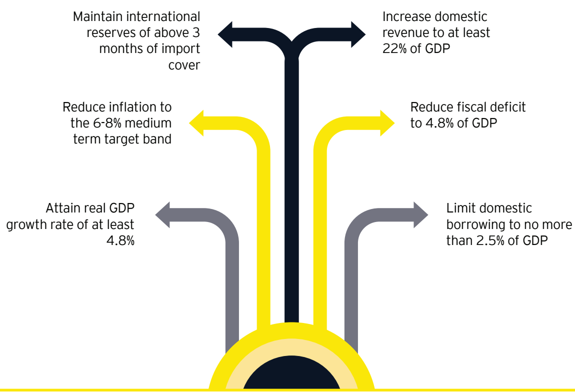
The 2024 National Budget has been prepared against slowed down global and domestic economic growth.

In 2023, the global economic growth is expected to slow down to 3.0% from 3.5% recorded in 2022. The growth of the domestic economy is projected to slow down to 2.7% in 2023 compared to growth of 5.2% in 2022. Sustained tightening of monetary policy in advanced economies, adverse effects of climate change, and the impact of the prolonged Russia - Ukraine war are largely responsible for the subdued economic growth.

Commodity prices trended downwards during the first half of this year on account of a weak global economy. For example, copper prices declined to an average of US$8,589 per metric tonne from US$9,084 during the same period in 2022. Crude oil prices also reduced to an average of US $82.8 per barrel from US $104.6.

Zambia's economy has huge potential to grow owing to its abundant natural resources, good weather and centrality of location despite the slowdown in growth this year prospects. To unlock the country's economic potential, there is need to address the constraints facing the economy, especially in the mining, energy, manufacturing and agriculture sectors. These constraints include low production and productivity, low diversification and industrialisation, low private sector investment and low access to affordable finance among others.

To unlock the country's potential and put the country on a higher growth trajectory, in 2024 Government will pursue the following macroeconomic objectives and hereunder are our commentary:



▶ Attain real GDP growth rate of at least 4.8% (2023: at least 4.0%)

Commentary: In 2023, the growth of the economy is projected to slow down and grow by 2.7% against the 2023 Budget estimate of 4.0% on account of mainly reduced production in the mining sector because of operational challenges and flooding in some of the major mines. The challenges faced by some mines, though some may be resolved, may not result in immediate increase in mining output in the short term. The 4.8% target of real GDP growth in 2024 which is higher than the 2023 target of 4.0% may, therefore, not be attained. However, early distribution of farmer inputs under the Farmer Input Supply Programme (FISP), and good rainfall patterns and favourable weather conditions for the 2023/2024 season could contribute to the attainment of the objective of achieving the target real GDP growth rate.

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

Commentary: In 2023, the growth in consumer prices, as measured by the inflation rate, has edged upwards into double digits. For September 2023, inflation was recorded at 12% from 9.9% in September last year. In 2024, inflationary pressures are expected to continue on account of high food prices and imported inflation.

Our expectation is that overall annual inflation in 2024 will be above the upper bound of the 6 – 8 % target band but will hover within the bound target in the medium-term. Elevated domestic food prices and tight global financial conditions are the key drivers of the current inflation outlook. The foregoing factors as well as higher global food and energy prices due to the prolonged Russia-Ukraine war remain key upside risks and are expected to persist in 2024.

▶ Maintain international reserves to at least 3 months of import cover (2023: 3 Months)

Commentary: The objective is attainable as at end-August 2023, gross international reserves were US $2.9 billion, representing 3.2 months of import cover. This is above the target of at least 3 months of import cover for 2023.

The objective of maintaining international reserves of above 3 months of import cover is likely to be met in 2024 particularly that the country is on an IMF ECF supported programme.

▶ Increase domestic revenue to at least 22% of GDP (2023: at least 20.9%)

Commentary: In 2023, total revenues and grants are expected to be ZMW119.1 billion against the 2023 Budget target of ZMW113.3 billion. Broadly revenue collections are projected to be above target. However, during the first half of 2023, total revenues amounted to ZMW56.0 billion, marginally lower than the target of ZMW56.7 billion, mostly due to under-performance from tax revenue. Tax revenues were below target by 6.4% at ZMW44.0 billion against a target of ZMW47.0 billion mainly on account of low

▶ Mobilize domestic revenue to at least 20.9% of GDP (2022: 21.0%)

payments of provisional income tax by mining companies and non-payment of liabilities by some taxpayers who were facing operation challenges. This is consistent with our expectations contained in our 2023 Budget analysis.

We, however, expect to see in 2024 positive performance in domestic revenue collections as revenue collections are expected to strengthen due to enforcement measures aimed at increasing tax compliance. Volatile prices of commodities, alongside disruptions in supply chain and the continued lower copper production continue to present a risk.

▶ Reduce fiscal deficit to 4.8% of GDP (2023: 7.7%)

Commentary: In 2023, the target for budget deficit was at 7.7% of GDP and projections are that the year-end deficit is going to be below target at 5.8% of GDP. The lower budget deficit outturn is on account of expenditure rationalisation by Government and this is expected to continue as part of Government's effort of financial prudence. Therefore, the 2024 4.8% fiscal deficit target is likely to be met.

▶ Limit domestic borrowing to no more than 2.5% of GDP (2023: 3.0%)

Commentary: This objective is attainable as shown by reduced borrowing by Government in the first half of 2023. Preliminary data shows that lending by the banking sector slowed down to 6.4% in the first seven months of 2023 compared to a growth of 11.9% recorded in the corresponding period in 2022 due to reduced borrowing by Government.

2024 National Budget Sector Policies

To achieve the macroeconomic objectives outlined in the preceding section, Government has proposed a number of sector - specific policies prescribed according to the strategic development areas of the Eighth National Development Plan, namely: Economic Transformation and Job Creation; Human and Social Development; Environmental Sustainability; and Good Governance Environment.

Economic Sector	Sector Policies
Agriculture, Fisheries and Livestock	▶ The finalised Comprehensive Agriculture Transformation Support Programme aimed at improving production in the Agriculture, Fisheries and Livestock sector will be launched before the end of this year. The Programme will include extension service support, access to finance, irrigation development, support to value addition as well as storage and logistics. ▶ In 2024, Government will spend ZMW13.8 billion on various interventions in the agriculture, fisheries and livestock sector in line with the Comprehensive Agriculture Transformation Support Programme. ▶ In particular, in 2024: ▶ Government proposes to spend ZMW8.6 billion for farming inputs under Farmer Input Support Programme to cover 1 million beneficiaries. About 77% of the beneficiaries will receive support through the e-voucher system. ▶ Government has also allocated ZMW1.7 billion for the maintenance of strategic food reserves. ▶ ZMW598.4 million will be spent on construction of at least 300 kilometres of roads and 10 bridges as well as electrification and irrigation development in Nansanga, Luena, Luswishi and Shikabeta farm blocks. ▶ ZMW186.0 million has been allocated for the establishment of a financing and credit window for small scale farmers, public service workers, and emergent farmers. ▶ ZMW498.8 million will be for the procurement of vaccines, animal health extension services, surveillance, animal identification and put into operation regional veterinary laboratories.

Economic Sector	Sector Policies
Agriculture, Fisheries and Livestock	▶ In addition, Government will construct 200 kilometres of powerlines in Luena, Luswishi and Shikabeta farm blocks to facilitate the installation of power to farms. ▶ Under irrigation development, ZMW443.5 million has been allocated in 2024 for the construction of 28 dams and rehabilitation of 6 dams. This is in line with Government's commitment to promote irrigation development for sustainable agriculture production and enhanced productivity. ▶ To unlock economic potential and revitalise the cotton value chain, Government proposes to provide the following incentives: a. Provide a 5-year tax holiday on profit for local producers of cotton seed; b. Provide a 5-year tax holiday on profit from ginning of cotton; and c. Provide a 10-year tax holiday on profit made from spinning of cotton and weaving of thread. ▶ In the livestock subsector, Government will enhance animal identification and traceability. To do this, an online system has been developed which is being piloted in Central, Lusaka, Northwestern, Southern, and Western Provinces. The system will enable the public to register, search and identify animals. The platform will be linked to a Short Messaging System for ease of access by animal owners. So far, 68,518 livestock farmers with 411,108 cattle have been captured. It is envisaged that the cattle population of approximately 5 million will be captured under this system by December 2024. ▶ To strengthen the legal reforms on animal identification and traceability, Government will enact the Animal Identification and Traceability legislation. ▶ Government is implementing a community-based livestock breeding programme through a pass-on scheme to support livestock farmers with high quality breeding stock. So far, 225,000 livestock have been distributed to 36,000 households countrywide. In 2024, a total of 12,000 livestock farmers will benefit under this programme. ▶ To increase livestock carrying capacity and build climate resilience, Government will continue implementing forage and pasture production. As at end-June this year, more than 19,000 hectares of degraded rangelands was over-sown, out of the target of 30,000, bringing the total over-sown rangeland to 99,000 hectares. This has improved livestock nutrition and assured all year-round availability of pasture and fodder. ▶ To enhance production and productivity in the fisheries sub-sector, in 2024, Government will establish 3 hatcheries in 3 aquaculture parks in Kasempa, Mushindamo and Samfya Districts in addition to the 18 hatcheries already established. This will increase fingerling production to 433.4 million in 2024 from the current 302.0 million.

Economic Sector	Sector Policies
Agriculture, Fisheries and Livestock	▶ In addition, Government will promote sustainable capture fisheries through enforcement of fishing ban and enhanced surveillance of water bodies. The interventions under aqua and capture fisheries are aimed at reducing the national fish deficit to 52,000 metric tonnes in 2024 from 74,000 in 2023.

Economic Sector	Sector Policies
Manufacturing	▶ Government will continue to promote Multi-Facility Economic Zones (MFEZs) as a way of expanding the country's industrial and manufacturing base. ▶ To address some weaknesses in the MFEZs, the following measures will be introduced by the end of first quarter 2024: ▶ Firstly, the land rates levied by Local Authorities will be harmonised and reduced; ▶ Secondly, the Employment Code Act, 2019 is a 'job killer' because it imposes onerous financial obligations and conditions on employers. These provisions will be reviewed generally, but especially so inside the MFEZs where we must aim to drastically reduce the burden they impose on employers. Further, a pay policy to workers based on agreed principles of more pay for higher productivity will be allowed; and ▶ Thirdly, immigration and work permit requirements have been onerous. It takes too long to have these permits issued and because of that, corruption has been perpetuated. In the MFEZs, therefore, there will be changes. The proposal is that in the MFEZs, an enterprise will automatically be granted a quota for expatriate employees, at whatever level, whose ratio will be based on the total number of jobs created. The higher the number of jobs created, the higher the number of expatriates allowed and vice-versa. Security clearance on proposed individual expatriates will continue to apply.

Economic Sector	Sector Policies
Small and Medium Enterprise Development	▶ To ensure access to affordable finance for SMEs growth, Government is providing funds to targeted groups through a number of empowerment programmes. ▶ In 2024, Government proposes to allocate ZMW391.9 million to the Citizens Economic Empowerment Commission for citizen economic empowerment programmes to promote entrepreneurship. ▶ To facilitate access to affordable loans by SMEs from financial institutions, Government proposes to increase budgetary allocation to the Zambia Credit Guarantee Scheme in 2024 to ZMW386.0 million from ZMW150.0 million in 2023. Of this amount, ZMW186.0 million is for the establishment of a financing and credit window for small scale farmers, public service workers, and emergent farmers.

Small and Medium Enterprise Development	▶ The Bank of Zambia, leveraging on private sector participation, will complement the existing Scheme by rolling out another credit guarantee scheme in 2024. ▶ To accelerate micro, small and medium enterprise development, Government has been constructing industrial yards. To this end, three Industrial yards are earmarked for commissioning in Kitwe, Lusaka, and Ndola before the end of this year. In 2024, Government will construct industrial yards in Chinsali, Choma, and Kabwe.

Economic Sector	Sector Policies
Tourism	▶ To accurately determine trade in tourism services, Government will establish a tourism satellite account to measure the contribution of tourism to the economy. This will help with policy formulation and inform decision-making. ▶ Government has secured financing amounting to US$100 million under the Green, Resilient and Transformational Tourism Development Project to develop tourism facilitation infrastructure at Kasaba Bay, Liuwa National Park, and the source of the Zambezi River. Other developments will include the improvement of air and road connectivity to south west tourism circuit of Liuwa, Sioma-Ngwezi, Livingstone, Lower Zambezi, and Kafue National Parks. ▶ Further, in 2024, Government has allocated ZMW769.5 million to the tourism sector for the development of tourism infrastructure, marketing, wildlife management, and development of tourism products, among others. ▶ To diversify tourism products, Government will undertake reforms to enhance wildlife conservation and management. ▶ Government will also promote sustainable tourism development to include tourism products such as cultural tourism, avitourism, health tourism and sports tourism. ▶ In addition, Government will continue to support the hosting of meetings, conferences, exhibitions and incentive travel.

Economic Sector	Sector Policies
Mining	▶ In 2024, Government will carry out aerial surveys on the Copperbelt, Lusaka, Northwestern, Southern, and Western Provinces as well as parts of Central Province. Accurate geological information is fundamental to the achievement of the 3 million metric tonnes of copper production target by 2032. In 2024, Government proposes to spend ZMW160.0 million on geological mapping to support exploration and investments. ▶ To support the sector, Government has declared all minerals as strategic for the country's economic prosperity. In this regard, Government will enhance the exploration, exploitation and trade of these mineral resources. ▶ To enhance regulatory oversight in the mining sector, Government will operationalise the Minerals Regulatory Commission through an act of Parliament. The Commission will address, among others, issues pertaining to production reporting, mineral content analysis, illegal mining and illicit trade of minerals. ▶ To promote oil and gas exploration, Government intends to remove customs duty on machinery, equipment and other goods designed for petroleum exploration.

Economic Sector	Sector Policies
Energy	▶ To mitigate the high cost of transporting petroleum products, Government converted TAZAMA Pipeline from a petroleum feedstock to a low sulphur diesel carrier. ▶ Government has now developed regulations to enable players in the sector to have third party access to the TAZAMA Pipeline. This will enhance competition among the suppliers, which will ultimately benefit consumers. ▶ To increase access to clean, reliable and affordable energy in rural areas, Government will continue to support the Rural Electrification Programme. Government, through the Rural Electrification Authority, embarked on 62 Grid-Tied Electrification Projects and 19 Solar Mini-Grid Projects in 2023. Works on these Projects have since commenced and once completed, access to electricity in the rural areas will be improved.
Energy	▶ To promote investment in power generation, Government proposes to increase the period in which a business can claim a refund on VAT incurred on eligible goods before the commencement of commercial operations to 7 years from the current 4 years for hydroelectricity generation. This is to allow for sufficient time for the investment to materialise. ▶ To promote geothermal energy, Government proposes to remove customs duty on machinery, equipment and other goods designed for geothermal energy activities.

Economic Sector	Sector Policies
Transport and Logistics	▶ To overcome the limitations imposed by scarce financial resources, economically viable road will be constructed using the Public Private Partnership (PPP) mode of financing. ▶ In this regard, the upgrading of the Lusaka-Ndola road to a dual carriageway has commenced under the PPP model. The Project will include the rehabilitation of Masangano-Fisenge-Luanshya roads. ▶ Further, the rehabilitation of the Chingola-Kasumbalesa road started this year under the PPP mode and the works have since reached 70% and will be completed before the end of this year. ▶ Under the PPP mode, the concession agreement for the Lumwana-Kambimba road has been signed. This road will connect Lumwana with Kolwezi in Democratic Republic of the Congo. ▶ The concession agreement for Katete-Chanida road will be signed in October this year. In addition, negotiations for the Ndola- Sakania-Mufulira and Mufulira- Mokambo roads will be concluded before the end of October this year. To complement the roads linking with Democratic Republic of the Congo, Government will also construct and upgrade border infrastructure at Sakania, Mokambo, and Kipushi under PPP. ▶ Government will continue with the construction and rehabilitation of rural roads through the World Bank funded Improved Rural Connectivity Project. The Project targets to construct, maintain and rehabilitate 4,300 kilometres of feeder roads across the country. ▶ Apart from feeder roads, Government will also rehabilitate and upgrade trunk and district roads. These will include Chipata-Lundazi, Mansa-Nchelenge, Monze-Niko, Mpika-Chinsali and Tateyoyo-Katunda roads. For this purpose, ZMW8.3 billion has been allocated in 2024 for the construction, rehabilitation and maintenance of roads, including feeder roads across the country. This is an increase of 59.6% from ZMW5.2 billion in 2023.
	▶ To reduce clearance time at Zambian borders, Government will implement electronic data exchange for customs and make pre-clearance of goods mandatory as well as introduce a Single Payment Point to collect statutory fees on behalf of other border agencies. In line with the Government's desire to reduce clearance time, operating hours at Katima Mulilo Border Post were extended to 24-hours in August this year. ▶ In the air transport subsector, Government is constructing and upgrading airport infrastructure. This year, upgrading and rehabilitation of Kasama Airport has been completed. In 2024, Government will commence the construction of airports at Kasaba Bay, Chinsali and Choma and rehabilitate and upgrade Mansa, Mbala, Mongu, and Solwezi Airports. In this regard, ZMW700.7 million has been allocated in 2024 for the works on these Provincial Aerodromes.

Economic Sector	Sector Policies
Social Protection	▶ As a commitment towards uplifting the livelihoods of the poor and vulnerable, Government increased the number of beneficiary households on Social Cash Transfer to 1,100,998 by end-June 2023 from 1,027,000 in 2022. ▶ With regard to the Food Security Pack Programme, the number of beneficiary households has increased to 242,000 from 241,000 in 2022. ▶ To alleviate immediate challenges faced by the most vulnerable, Government will, in 2024, increase the allocation under the Public Welfare Assistance Scheme to cater for 40,000 beneficiaries from the current 16,000. ▶ Government will increase the number of beneficiaries under the Girls' Education and Women's Empowerment and Livelihoods project from the current 116,891 beneficiaries in 76 districts to 129,400 beneficiaries in 81 districts by April 2024. The Project provides livelihood support for women and access to secondary education for girls in extremely poor households. ▶ To uplift the living standards of vulnerable Zambians, Government proposes to allocate ZMW9.7 billion for social protection related expenditures. Of this amount, ZMW4.1 billion is for the Social Cash Transfer Programme. ▶ Government has further allocated ZMW1.27 billion for the Food Security Pack to support the vulnerable but viable farmers in 2024. ▶ To remain current with pension payments under the Public Service Pensions Fund, Government proposes to increase the allocation to the Public Service Pension Fund to ZMW3.9 billion from ZMW2.4 billion. Government, further, proposes to increase the allocation to the Local Authorities Superannuation Fund to ZMW400.0 million from ZMW300.0 million. The increase in the allocations is aimed at reducing the waiting time for pension payment.

Economic Sector	Sector Policies
Education and Skills Development	▶ In 2024, Government will continue to increase access to quality education through infrastructure development. In this regard, Government proposes to spend ZMW27.4 billion or 15.4% of the budget on the Education Function. ▶ Government completed construction of 69 schools of the stalled 115 secondary schools while the remaining 46 are still under construction and will be completed in 2025. Government targets to construct an additional 202 secondary schools. Of these, 82 are under construction and will be completed in 2024 while construction of the remaining 120 secondary schools will commence in 2024. ▶ To continue with the programme of completing abandoned secondary schools, Government proposes to spend ZMW338.3 million in 2024.

Economic Sector	Sector Policies
Education and Skills Development	▶ In addition to the construction of schools, Government has been increasing the capacity of existing schools through the construction of classrooms. As at end- August 2023, a total of 3,132 classrooms were built under the CDF. ▶ Leveraging on the extensive national coverage of fibre networks, Government will roll out the e-learning management system aimed at ensuring easy access to online teaching and learning materials across the country. In addition, Government is collaborating with Cooperating Partners to improve connectivity of internet in rural schools. ▶ To improve the quality of education, Government has continued to recruit teachers and provide teaching and learning materials. To this end, the process for hiring 4,500 teachers has begun. ▶ In 2024, another 4,200 teachers and 1,200 non-teaching staff will be recruited to improve service delivery in the education sector. To this end, Government intends to allocate ZMW356.1 million for the recruitment of 5,400 personnel. The recruitment of teachers will not only reduce the backlog of unemployed teachers but also improve the teacher-pupil ratio. ▶ To improve the learning environment, Government committed that no learner should sit on the floor. Progress has been made in the procurement of school desks. As at end-August 2023, over 442,000 desks had been procured mostly using CDF. Government's target is to procure 1 million desks ▶ Government will continue to prioritise the provision of quality and relevant vocational skills by equipping training centres with modern equipment. This will align skills of TEVET graduates to industry requirements. To this end, Government proposes an allocation of ZMW70.0 million in 2024 for equipping TEVET training centres with modern equipment to enable them provide quality and relevant vocational skills. ▶ Government intends to spend ZMW1.9 billion on grants to schools in line with the free education policy. In addition, Government proposes to increase the allocation to the School Feeding Programme to ZMW111.7 million from ZMW39.4 million to increase coverage and improve the quality of meals. ▶ Government in 2024 proposes to increase the allocation to the Higher Education Loans and Scholarship Board to ZMW1.2 billion. This will increase the number of students benefiting from the Loan Scheme.

Economic Sector	Sector Policies
Health	▶ In 2024, Government will continue to prioritise the provision of quality health care services through the development of infrastructure, recruitment of health personnel as well as provision of medicines and medical supplies. To this end, Government intends to allocate ZMW20.9 billion or 11.8% of the budget. Of this amount, ZMW5.0 billion is for the procurement of medicines and medical supplies. ▶ To improve health infrastructure, Government has completed the construction of 12 mini-hospitals out of the planned 16 this year. This brings the total number of completed mini-hospitals under Phase I to 111 out of the target of 115. The remaining 4 mini-hospitals in Lufwanyama, Lusaka, Mpongwe, and Mufumbwe Districts will be completed in 2024. ▶ In addition, Government has this year constructed 62 maternity annexes, of which 19 were financed from the Constituency Development Fund. In 2024, Government will construct 30 maternity annexes. ▶ Further, to increase access to healthcare for the citizens, the construction of 135 mini-hospitals under Phase II will commence across the country. In this regard, Government proposes to allocate ZMW1.4 billion in 2024 towards health infrastructure development across the country. Of this amount, ZMW239.8 million will go towards the completion of the remaining 4 mini-hospitals in Phase I, and the commencement of the construction of 135 mini-hospitals under Phase II of the Project.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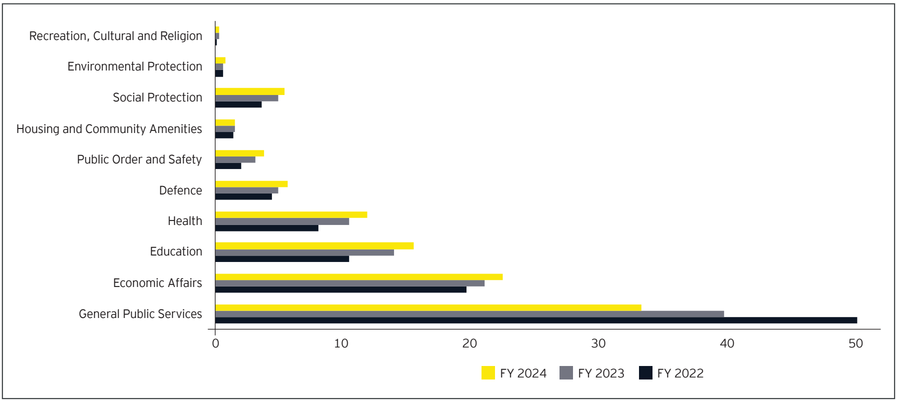
2023 National Budget Summary

In 2024, the Zambian Government proposes to spend a total of ZMW177.9 billion or 27.8% of GDP compared to ZMW167.3 billion spent in 2023 which was equivalent to 37.4% of GDP. Thus, the 2024 National Budget has increased by ZMW10.6 billion, translating into a marginal increase equivalent to 6.3% of the 2023 Budget.

Tables 1 and 2 provide the overview of the 2024 National Budget and compares it to the 2023 and 2022 National Budgets, respectively.

Government proposes to increase spending in all the functions by Government classification except in one function, the general public services. In particular, Government proposes to reduce spending in the general public services function on account of substantial reduction in external debt (interest and principal) servicing obligations as reflected by a substantial reduction in the proposed budgetary allocation to ZMW6.0 billion in 2024 from ZMW18.2 billion in 2023.

Figure 2: Zambia's Proposed 2024, and 2023, 2022 Expenditure by Function



This is because of the debt structuring agreement with bilateral external debtors that was reached earlier this year and the expected agreement with the private creditors, both which will lead to rescheduling of debt repayments to much later date. In 2024, the general public services function will only account for 33.1% as a share of the total budget compared to 39.5% and to 49.9 % (half of the total budget) as shares of the total budgets for 2023 and 2022, respectively. Of the ZMW58.93 billion expenditure on the general public services function, ZMW32.9 billion will go towards domestic debt servicing while ZMW6.86 billion will go towards dismantling of arrears owed to various suppliers of works, goods and services.

Government proposes to increase economic affairs spending to 22.3% as a share of the total budget for 2024 to support its goal of unlocking the country's economic potential by addressing challenges such low production and productivity, low diversification and industrialisation, low private sector investment and low access to affordable finance. Of the total amount for the function, ZMW13.8 billion has been allocated for various interventions in the agriculture, fisheries and livestock sub-sectors in line with the Comprehensive Agriculture Transformation Support Programme. ZMW8.3 billion has been allocated for road infrastructure while ZMW3.8 billion will be for the enhanced Constituency Development Fund. See Figure 2 for the budgetary allocations to the various functions of expenditure.

Analysis of Budget Allocations

In 2024, the General Public Services Function will receive a total of ZMW58.9 billion from ZMW66.2 billion in 2023 and from ZMW86.4 billion in 2022.

As a share of the total budget, there has been a reduction in expenditure on general public services from 39.5% in 2022 to 33.1% in 2023. Out of the total General Public Services allocation of ZMW58.9 billion, ZMW32.9 billion is for domestic debt servicing, ZMW6.0 billion is for external debt servicing and ZMW6.9 billion is for dismantling domestic arrears bringing the total for debt servicing and dismantling of domestic arrears to ZMW45.8 billion.

Clearly, there has been substantial reduction in resources allocated to debt servicing and dismantling of arrears in the 2023 budget from a total of ZMW55.5 billion in 2023 to a total of ZMW45.8 billion in 2024 representing a 17.5% reduction. The reduction has seen foreign debt servicing being allocated ZMW6.0 billion in 2024 as compared to ZMW18.2 billion in 2023 showing a reduction in external debt interest and principal payments following the debt restructuring agreement reached between the Zambian Government and external bilateral debtors and the eminent agreement on the other portion of the external debt to be reached between the Zambian Government and external private debtors. The agreement provides for rescheduling of payment of debt to the next decade (2031) thus making debt service savings of approximately US$5.8 billion, which was to be raised by Government for debt servicing between now and 2031.

The total debt servicing and dismantling of arrears for 2023 is broken down as follows: ZMW18.2 billion was for external debt servicing; ZMW30.5 billion for domestic debt servicing; and ZMW6.6 billion for dismantling domestic arrears. Even with the reduction in the allocation for debt servicing including dismantling of arrears in the 2024 budget, the two budgetary items still account for a quarter (26%) of the total budget and in 2023 accounted for 33% of the total budget. When compared with the combined allocation of resources to key economic and social protection, the said sectors account for 28% of the total budget in 2024.

Economic Affairs Function received an

increase in allocation of 13.7% in 2024 following an increase in allocation of 3.9% in 2023 and in absolute terms has been allocated ZMW39.8 billion in 2024 and received ZMW35.0 billion in 2023, respectively. The Economic Affairs Function allocation as a share of the total budget increased to 22.3% in 2024 from 20.9% in 2023. The increase in allocation for the function in 2023 is mainly on account of the allocation to various interventions in the agriculture, fisheries and livestock sub – sectors in line with the Comprehensive Agriculture Transformation Support Programme which received an allocation of ZMW13.8 billion. Further, road infrastructure received a notable incremental allocation of ZMW8.34 billion and Constituency Development Fund received an allocation of ZMW3.8 billion. Other programmes under the Function in the 2024 budget include Tourism Sub - Sector, provincial aerodromes infrastructure, empowerment funds for the small and medium enterprises (SMEs), credit guarantee scheme, geological mapping and Public Sector credit facility with allocations of ZMW769.5 million, ZMW700.7 million, ZMW391.9 million, ZMW386 million, ZMW160 million and ZMW150 million, respectively.

The allocations to the Economic Affairs Function reflect Government's desire as reflected in the 2030 Vision and the Eighth National Development aimed at unlocking the country's economic potential which will lead to wealth and job creation and ultimately contribute to higher economic growth of the country. Expenditure lines are, therefore, on interventions which may address the constraints facing the economy, especially in the mining, energy, manufacturing and agriculture sectors. These include low production and productivity, low diversification and industrialisation, low private sector investment, low access to affordable finance and low citizen participation.

In the Health Function, the budgetary allocation as a share of the total budget increased to 11.8% in 2024 from 10.4% in 2023 and in absolute terms increased to ZMW20.9 billion in 2023 from ZMW17.4 billion in 2023 representing a percentage increase of 20.1%. Notable change in expenditure in the Health Sector is the increase in allocation to procure drugs and medical supplies by 9% to ZMW5 billion in 2024 from ZMW4.6 billion in 2023. Another notable allocation is for health infrastructure development of ZMW1.4 billion out of which ZMW239.8 million will go towards the completion of the remaining 4 mini-hospitals in Phase I, and the commencement of the construction of 135 mini-hospitals under Phase II of the Project. Government has further allocated ZMW344.1 million for the recruitment of 4,000 health personnel in 2024. The 2024 budget include an allocation amounting to ZMW120.0 million meant for the Electronic Health Record System in order to strengthen the health care management information system.

The Education Function received a further substantial increase in the budgetary allocation for 2024 following another increase in 2023. The Function's allocation as a share of the total budget increased to 15.4% in 2024 from 13.9% in 2023. In absolute terms, the budgetary allocation for education has increased to ZMW27.4 billion in 2023 from ZMW23.2 billion in 2023 representing an increase of 18.1%. The increase in education by functional expenditure is meant to consolidate the gains made in the Sector over the last two years which include the recruitment of teachers, construction of school infrastructure and provision of free education for primary and secondary school education up to grade 12. Notable budgetary allocations in 2024 include the provisions of ZMW1.4 billion and ZMW1.6 billion for school grants and school and university infrastructure, respectively. Government has further allocated ZMW1.2 billion to the Higher Education Loans and Scholarship Board for the provision of student bursaries and student meal allowances.

Government's budgetary allocations as a percentage share of the total budget to social protection, defense, public order and safety, housing and community amenities, environment protection and recreation, culture, and religion has increased in 2024. The 2014 budgetary allocation to social protection budget as a share of the total budget will increase to 5.4% in 2024 from 4.9% in 2023 and in absolute terms to ZMW9.7 billion from ZMW8.1 billion in 2023. Notable budgetary allocations for 2024 include the ZMW4.1 billion for the Social Cash Transfer Programme which has been increased by a further 10.8% from ZMW3.7 billion in 2023. Further, ZMW1.2 billion has been allocated for the Food Security Pack in 2024 to support the vulnerable but viable farmers. Government has increased the allocations to the Public Service Pension Fund and to Local Authorities Superannuation Fund to ZMW3.9 billion and ZMW400.0 million in 2024 from ZMW2.4 billion and ZMW300.0 million in 2023, respectively. The increase in the allocations is aimed at reducing the waiting time for pension payment. The continued increase in social spending by Government is in a bid to to uplift the living standards of vulnerable citizenry.

Further, budgetary allocations for defense and public order and safety have been increased as percentage share of the total budget to 5.6% and 3.8% in 2024 from 4.9% and 3.1% in 2023, respectively. In absolute terms, the budgetary allocations to the two functions increased to ZMW9.9 billion and ZMW6.8 billion from ZMW8.2 billion and ZMW5.2 billion in 2023, respectively. A notable budgetary inclusion in 2024 under the Public Order and Safety Function is the ZMW250 million for the Integrated National Registration Information System (INRIS). Through the INRIS, Government will promote the use of biometric identity. This System will assign a unique national identification number at birth as opposed to when a citizen attains the age of 16. It will also eliminate the current incidences of duplicate NRCs and the need to provide photocopies of the identity cards whenever one wants to access services such as registration for a sim card and opening of a bank account.

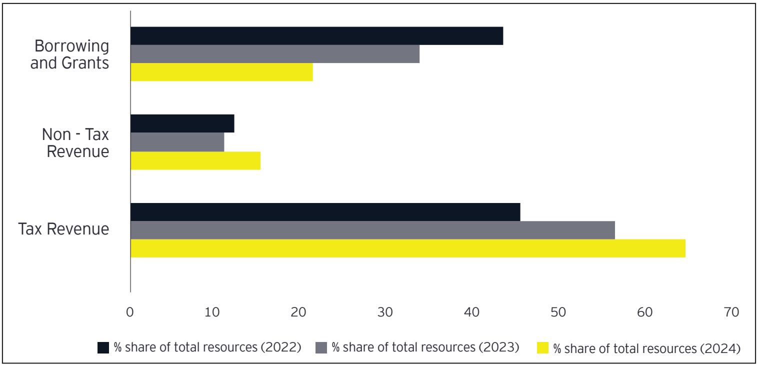
To support the 2024 ZMW177.9 billion national expenditure, Government proposes to collect revenue through both tax and non – tax measures coupled with increased tax compliancy levels. The measures will result in increase in tax revenue collected to cover 64% as a share of the total revenue in 2024. In addition, 15% of the total revenue will be in form of non – tax revenues.

In 2024, Government hopes to raise ZMW141.1 billion or 22% of GDP as domestic revenue which will be increased by 26.4% to 2023 domestic revenue which stood at ZMW111.6 billion. Government, therefore, hopes to increase the share of domestic revenue in its resource envelope in 2024 to 79% as a share of the total budget compared to 66.7% in 2023.

Government further proposes to reduce the share of total financing and grants in 2024 by 34.1% to ZMW36.7 billion from ZMW55.7 billion in 2023. In particular, ZMW3.4 billion will be in the form of grants from Cooperating Partners while ZMW33.3 billion will be debt financing. Thus, the budget deficit for 2024 is estimated to be ZMW30.8 billion or 4.8% of GDP. See Figure 3 for the summary of the country's resource envelope for 2024 in comparison to 2023 and 2022 fiscal years.

Government proposes to offer various tax and non – tax relief incentives to the productive sectors and employees which are meant to increase production and productivity, investments, diversification and industrialisation as well as increase disposable incomes for employees thus resulting in increase in consumer spending, domestic savings, output and ultimately growth of the domestic economy.

Figure 3: Zambia's Resource Envelope for 2024, 2023 and 2022.



2023 National Budget Tax and Related Measures

1. Corporate Income Tax

Proposed change

Extend the accelerated depreciation up to 100% in respect of any new implement, plant or machinery to developers of Multi-Facility Economic Zone.

Our comment

The measure is being proposed to extend the relief to developers in the Multi-Facility Economic Zones as it is currently only applicable to investors. The proposed measure should enhance Zambia's competitiveness and industrialization drive, in the face of the Africa Continental Free Trade Agreement (AfCFTA). We note however, that the tax incentives alone do not drive investment. Other factors that influence investment and need attention include efficient equitable and predictable tax administration, ease of doing business, the strength of governance institutions and transport infrastructure. Tax administrative challenges including VAT refunds and VAT rule 18 export provisions that transfer the administrative burden of zero rating of exports onto the taxpayer and depend on documentation generated by other jurisdictions could still pose a significant challenge to investment. Furthermore, in the era of the 4th Industrial revolution, which is driven by emerging technologies, the incentives regimes must focus not only on manufacturing but emerging technologies and innovation as well. The drive towards innovation will drive Zambia higher on the commercial and industrial value chain where returns are higher than basic manufacturing. To ensure certainty by investors, there is also a need to restrict the power to revoke incentives to the Zambia Development Agency (ZDA) rather than the ZRA. The ZRA's role should be limited to administration of the incentive.

Proposed change

Extend the 2% local content allowance on income earned from value addition to sorghum and millet.

Our comment

Currently the local content allowance is applicable to value addition to mango, pineapples, cassava and tomatoes. The measure intends to further incentivize the manufacturing and processing of sorghum and millet.

Proposed change

The following measures have been proposed by the Government to provide incentives to revitalise the cotton value chains.

a. Provide a 5-year tax holiday on profit for local producers of cotton seed;

b. Provide a 5-year tax holiday on profit from ginning of cotton; and

c. Provide a 10- year tax holiday on profit made from spinning of cotton and weaving of thread.

Our comment

Cotton is a soft, fluffy staple fibre that grows in a boll, or protective case, around the seeds of the cotton plants. Cotton is a food and a fibre crop which is used to make clothes, homewares, and industrial products. This measure is intended to encourage investment in the local production and value addition to cotton.

What this means for you:

This incentive has been introduced to stimulate growth of the local textile industry and encourage the set-up of vertically integrated business models in Zambia. This will have the ripple effect of revenue generation for the country as well as job creation.

Proposed change

Increase the tax concession for businesses in a rural area to 20% from 14.2% of the applicable Corporate Income Tax rate for the first five years in operation and extend to all sectors, except mining.

Our comment

Section 2 of the Income Tax Act defines a "rural area" to mean any area which is not an area declared or deemed to have been declared an area of any city or municipal city under the Local Government Act (Cap 281) but excluding the area declared to be the area of the Kafue township. In an effort to promote local investment, the Government proposes to increase the tax relief to 20% from 14.2% of taxable profits for the first five years of operation for businesses in all sectors in rural areas except mining.

What this means for you:

Once this measure is implemented it will promote investment in rural areas and enhance development of the local communities, as it will reduce the tax burden for the first five years. This in turn should encourage entrepreneurship, attract private investment, PPP opportunities and create jobs. In addition, the proposed tax relief will unlock capital for reinvestment.

HOUSEKEEPING MEASURES

Proposed change

Provide for the appointment of Mineral Royalty Withholding Agents.

Our comment

The introduction of a provision under the Mine and Mineral Development Act that will be aligned to the Income Tax Act, and that which empowers the Commissioner General to appoint agents for the collection of Mineral Royalty tax. This measure seeks to improve Mineral Royalty compliance among artisanal and small-scale miners.

It is likely that details of Mineral Withholding Agents will be provided for under the ZRA's Practice Note.

Proposed change

Amend the Income Tax Act to provide for the Large and Specialised taxpayers to submit audited financial statements as may be required by the Commissioner General.

Our comment

This measure is intended to encourage compliance by ensuring that Large and Specialised taxpayers make accurate tax declarations that are based on credible audited financial statements.

Details of whether the proposed amendment will apply retrospectively are not clear. We look forward to reading guidelines around the compliance of submitting audited financial statements under ZRA's Practice Note.

Proposed change

Replace the definition of electronic fiscal devices Electronic Fiscal Devices

Electronic Invoicing System (EFDs) with electronic invoicing system (EIS) and provide for the use of electronic invoicing system.

Our comment

This measure is intended to broaden the tax base for fiscalisation because the current definition restricts the scope of fiscalisation to the use of physical devices only. The measure to broaden the tax base is welcome. However, taxpayers are still facing challenges with the use of electronic fiscal devices such as maintenance and technological issues (i.e., lack of seamless taxpayer and ZRA system integration). Therefore, we are of the view that the roll out of the electronic invoicing should take a phased approach and incorporate a trial period with the date of full commencement to be determined and communicated by the Commissioner General. This would allow for any technical challenges experienced during trial to be addressed prior to commencement.

Proposed change

Provide for exemption from the mandatory use of electronic invoicing systems.

Our comment

Currently the use of electronic invoicing systems is mandatory to all taxpayers. However, this change empowers the Commissioner General to provide exemption to certain persons due to the nature of their business or special circumstances.

Proposed change

Align specific penalties for offences in respect of omission or understatement of income arising from acts of negligence, wilful default or fraud in the artisanal and small-scale mining tax regime with those for Turnover Tax.

Our comment

Currently, artisanal and small-scale mines are subject to penalties under presumptive taxes as per the 2023 tax amendments. However, this proposed change now aligns the penalties with those for the turnover tax regime.

Description	Current Regime	Proposed Change
Negligence	Half of the amount of undeclared tax	1.5% of the omitted or understated amount
Wilful default	Equivalent to the amount of undeclared tax.	3% of the omitted or understated amount
Fraud	One and half times the amount of undeclared tax.	4.5% of the omitted or understated amount

Proposed change

Revise the definition of approved pension fund to clarify that approval is to be granted by the Pensions and Insurance Authority (PIA) and not the Commissioner General.

Our comment

According to Section 2 of the Income Tax Act "approved pension fund" means a pension fund or scheme which has been approved by the Commissioner General under the Fourth Schedule. This proposal transfers the authority of the Commissioner General to approve a pension fund to the Pensions and Insurance Authority for income tax purposes.

Proposed change

Remove the mandatory provision for taxpayers to write a notice to the Commissioner General within 30 days when they are in receipt of their first income.

Our comment

At present, taxpayers are required to notify the Commissioner General within 30 days of the receipt of their first income. However, this amendment will be repealed due to the integration of the ZRA system with the Patents and Companies Registration Agency (PACRA) that now allows new businesses that register to automatically be assigned a TPIN at the time of registration, and thereafter register for applicable tax types.

2. Transfer Pricing

Proposed change

Amend the Income Tax Act to remove the statutory limitation of not assessing a taxpayer after the prescribed six years for transfer pricing tax audits that are delayed due to exchange of information between the taxpayer and the Authority.

Our comment

Previously, taxpayers were able to object to the years of assessment of transfer pricing audits that exceeded the statute of limitation of 6 years. For example, for an ongoing transfer pricing audit that began in the year 2016 with the statute of limitation of six years, a taxpayer could dispute the years under audit as them being outside the prescription period. However, with the introduction of the new amendment, taxpayers would not be able to dispute any assessment years that have fallen outside the prescription period.

On one hand, the measure seeks to safeguard the ZRA's tax revenue that may be subjected to assessment despite the statutory limitation of six years following unwarranted delays in the conclusion of a tax audit. On the other hand, this measure may infringe on taxpayers' rights to the extent that tax audits may be inordinately delayed.

For instance, in an event that the progress of a tax audit has been stalled due to delayed feedback from the ZRA, the taxpayer is disadvantaged as the Information exchange is largely outside the control of the taxpayer. In practice, we have observed that, much to the detriment of taxpayers, the ZRA does not adhere to any timeframes when responding to assessment matters or cases under litigation. This leads to tax audits running for a number of years without ZRA providing feedback or their final assessment. The proposed change therefore goes against the principles of fair tax administration which function is to promote efficient resolution of disputes and the right to finality. The proposed change also goes against the taxpayers' constitutional rights to administrative justice.

We therefore contend that this proposed change should not be enacted. Instead, efforts should be given to the enactment of the Tax Administration Act (TAA) which should clearly outline key performance indicators and timelines for both the ZRA and the taxpayer as announced by the Minister in the budget speech. The TAA will serve as a guarantee for the reciprocal responsibilities between the ZRA and taxpayers.

Proposed change

Amend Section 97A (11A) of the Income Tax Act to clarify the date of assessment for cases under litigation, and to clarify that the date of determination or the final ruling shall be considered as the date of assessment.

Our comment

In 2020 Section 97A(11A) was amended to provide a time frame of 12 months in which a corresponding adjustment may be claimed from the date of assessment. Further to this amendment, the ZRA released a Practice Note in 2020 that clarified that the date of assessment for cases under litigation is the date of the final ruling and the date of assessment for a case under objection is the date at which the final assessment is provided. However, Practice Notes are not enshrined in legislation and are nonbinding, but rather provide guidance on legislation already prescribed. This amendment seeks to legislate the practice that confirms that the date of assessment is the date on which the final assessment is issued if under audit or the date the litigation is concluded.

Housekeeping Measures

Proposed change

Mandate taxpayers to seek permission from the Commissioner General for the use of a pricing method that is not among the transfer pricing methods recommended by the Organisation for Economic Co-operation and Development (OECD) for pricing transactions between related entities.

Our comment

The OECD Guidelines provides five methods for the use of pricing transactions between related parties including the CUP, Resale Price, Cost-Plus, Transactional Net Margin, and Profit Split methods. For any taxpayer that uses a transfer pricing method that is not prescribed above, a formal request will now have to made to the Commissioner General for prior approval. We contend that this proposed change should not be enacted, but rather the global practice of the signing of an Advanced Pricing Agreements (APA) should be considered. An APA is an administrative approach that attempts to prevent transfer pricing disputes from arising by determining criteria for applying the arm's length principle to transactions in advance of those transactions taking place. An APA does not only consider that transfer pricing method to be used but considers all aspects of the related party transaction.

The adoption of APAs in the legislation will create certainty for taxpayers as it removes the threat that the ZRA may have a different view or opinion on the transfer pricing method used and the arm's length nature of the entire transaction.

Proposed change

Amend definitions of "Surrogate Parent Entity", "Reporting Entity" and "Reporting Fiscal Year" to align them with the OECD Transfer Pricing guidelines.

Our comment

The Zambian Transfer Pricing Regulations define a Constituent Entity as:

a. A separate business unit of a multi-national enterprise group that is included in consolidated financial statements of a multi-national enterprise group for financial reporting purposes, or would be included if equity interests in the business unit of a multi-national enterprise group are traded on a public securities exchange;

b. A business unit that is excluded from the multi-national enterprise group's consolidated financial statements solely on grounds of size or materiality; or

c. A permanent establishment of a separate business unit of a multi-national enterprise group included in paragraph (a) or (b) provided the business unit prepares a separate financial statement for that permanent establishment for financial reporting, regulatory, tax reporting, or internal management control purposes.

The OECD Guidelines define a Surrogate Parent Entity as one Constituent Entity of the Multi-National Enterprise (MNE) Group that has been appointed by such MNE Group, as a sole substitute for the Ultimate Parent Entity, to file the Country-by-Country Report in that Constituent Entity's jurisdiction of tax residence, on behalf of such MNE Group, when one or more of the conditions set out in subsection.

Further, the Zambian Transfer Pricing Regulations define a Surrogate Parent Entity as one Constituent Entity of the multi-national enterprise group that is appointed by a multi-national enterprise group as a sole substitute for the ultimate parent entity, to file a country-by-country report in that constituent entity's State of tax residence, on behalf of the multi-national enterprise group, when one or more of the conditions set out in sub-regulation.

The measure seeks to align the definitions in the Transfer Pricing Regulations to replace the word "State" with "Jurisdiction" wherever it appears in line with the OECD model legislation.

Proposed change

Increase the exempt threshold to ZMW5,100 from ZMW4,800 and reduce the top rate to 37% from 37.5%.

3. Pay As You Earn

Current Regime		Proposed Regime	
Income Band	Tax Rate	Income Band	Tax Rate
0 - ZMW4,800 per month	0%	0 - ZMW5,100 per month	0%
ZMW4,801-ZMW6,800 per month	20%	ZMW5,101-ZMW7,100 per month	20%
ZMW6,801-ZMW8,900 per month	30%	ZMW7,701-ZMW9,200 per month	30%
Above ZMW8,900	37.5%	Above ZMW9,200	37%

Our comment

The proposed change increases the annual income tax exemption threshold for Pay As You Earn (PAYE) from ZMW 57,600 to ZMW61,200 per annum. It further reduces the maximum tax band from 37.5% to 37%. This adjustment is commendable as it allows for increase in disposable income. This measure also gives relief to the low wage earners, basically increasing the net income of the employee. However, we contend that the proposed change may only allow individuals to effectively save if inflation constantly remains at a single digit or the adjustment is in line with the inflation rate. Any adjustment below that is actually a net erosion in real terms of disposable income.

Proposed change

Allow mining companies to keep their books of accounts in United States Dollar if their gross income is not less than 75 % in form of foreign exchange earned outside the Republic.

4. Value Added Tax

Our comment

The proposed amendment aims to align the VAT Act with Section 55 (4) of the Income Tax Act which provides that a person carrying out any mining operations may elect to keep books of account in United States Dollars of all transactions relating to such operations if the Commissioner-General is satisfied that not less than 75 % of that person's gross income from mining operations is earned in the form of foreign exchange from outside the Zambian Republic.

Currently, for VAT purposes, taxpayers are only allowed to keep their books of accounts in Zambia Kwacha. It is our reiterated contention

Proposed change

Allow mining companies to keep their books of accounts in United States Dollar if their gross income is not less than 75 % in form of foreign exchange earned outside the Republic.

that the Minister should consider adopting the IFRS functional currency provisions. The functional currency is the currency of the primary economic environment in which an entity operates. Whilst the primary economic environment in which an entity operates is the one in which it primarily generates and expends cash. It is our understanding that permitting taxpayers to use their functional currency would be administratively easier whilst also being a revenue-generating mechanism for the revenue authority as it would bring foreign exchange into the fiscus given that these entities would settle their tax obligations in hard currency.

What this means for you:
This proposed change will mitigate the foreign exchange differences and discrepancies that arise from the data matching exercise between the turnover in the financial statement and the VAT Returns for affected taxpayers.

Proposed change

Introduce the provision for the conversion rate of the Kwacha against the United States Dollar to be used for purposes of translating the books of accounts for VAT purposes referred to under Section 44(3) as the spot rate prevailing on the date of transaction.

Our comment
By taking this action, exchange rate disparities will be minimised for tax invoices denominated in United States Dollars (USD) that will be utilised for both income tax and VAT returns.

Proposed change

Delete Section 8A of the VAT Act on the supply and accounting of an electronic service.

Our comment
Currently, Section 8A of the VAT Act provides the only legislated guidance on taxation of electronic services in Zambia.
Among other things, it provides that electronic service providers should compulsorily appoint a tax agent regardless of not meeting the tax registration threshold of having a turnover more than ZMW800,000.
One of the pain points of the existing legislation is that it does not define in great detail what an electronic service or electronic commerce means in the context of the Act. It also appears to be less thorough when compared to other jurisdictions who have created more practical frameworks around digital taxation.
The rationale for this deletion as explained in the budget pronouncements is to allow for the Government to review the global developments in digital services taxation

Proposed change

Delete Section 8A of the VAT Act on the supply and accounting of an electronic service.

and consider Base Erosion and Profit Shifting (BEPS) 2.0 discussions. The Government recognises that the growing digital economy presents an opportunity for Zambia to further expand the tax base and collect more revenue from non-resident suppliers. We are of the view that this is a plausible change as it is vital for the Government to consider and keep track of the Organisation for Economic Co-operation and Development (OECD) and United Nations (UN) developments around digital services taxation. It is also vital that our local legislation aligns with the views and guidance of regional bodies such as the African Tax Administration Forum (ATAF).

What this means for you

It is expected that a more robust digital taxation regime will be established in Zambia. As such, it would be prudent for all electronic service providers and recipients of e-commerce services from non-residents to create compliance strategies that will allow for the smooth operation of their businesses.

Proposed change

Introduce the definition of the following in the VAT law:

a. "cross border electronic services"
b. "electronic services"
c. "prescribed invoicing system"
d. "imported service"
e. "electronic invoicing system"
f. "certified invoicing system"; and
g. "sales data controller"

Our comment

We anticipate that the definitions which will be introduced will be a successor provision to the deleted Section 8A and will provide more clarity on the local parameters of taxation of digital services. We further anticipate that these will be aligned with international and regional best practices.

Proposed change

Amendment to increase the period in which an intending trader involved in hydroelectricity generation can claim a refund on VAT incurred on eligible goods.

Our comment

Intending traders are suppliers who are registered for VAT in anticipation of commencing trading activities. The registration is normally for the sole purpose of claiming input tax. Currently, intending traders in specific industries can claim VAT in the following stipulated time frames:

- up to ten years for traders engaged in exploration;
- up to four years for traders engaged in electricity generation, tourism, farming, mining and Special Purpose Vehicles

Proposed change

Amendment to increase the period in which an intending trader involved in hydroelectricity generation can claim a refund on VAT incurred on eligible goods.

(SPV) for Public-Private Partnerships projects; and

- up to two years for all others.

The proposed amendment increases the period in which businesses engaged in electricity generation can claim VAT from 4 years to 7 years.

This proposed change acts as an incentive for traders in the electricity generating sector and is aimed at enhancing growth of the electricity sub-sector. This proposed change aligns with the Government's ambitious target to produce 3million tonnes of copper by 2030 which will require a significant increase of electricity generation in order to be achieved. It will also be beneficial in fulfilling the Government's agenda under the Rural Electrification Program.

What this means for you

Intending traders in the electricity generation business will be able to claim input VAT for a longer period of time. This should ease pressure to commence trading before operating conditions are ideal for fear of losing input VAT credits.

Proposed change

Replace the reference to the words "electronic fiscal devices" under Sections 7 and 51(2)(h) of the VAT Act, and Sections 2 and 4(3) of the Insurance Premium Levy Act with the words "prescribed invoicing system".

Our comment

The impact of the change of wording in the proposed amendment is that it puts into effect the ZRA's intention to implement electronic invoicing systems in addition to the promotion of physical electronic fiscal devices. This is anticipated to enable ZRA to have real time access to business transactions. The change appears to enhance the use electronic fiscal devices by adding e-invoicing as a solution.

The electronic invoicing system aims to put an end to the use of fake invoices in VAT refund claims and make sure that only eligible entities make deduction claims. As the ZRA makes this transition, care should be taken to address issues noted and concerns that taxpayers have historically expressed with regards to the use of EFDs. Additionally, we are of the view that the roll out of the electronic invoicing should take a phased approach and incorporate a trial period with the date of full commencement to be determined and communicated by the Commissioner General. This would allow for any technical challenges experienced during trial to be addressed prior to commencement.

Proposed change

Introduce a provision under Section 18(3) that allows taxpayers to use prescribed invoicing system to issue an invoice for the purpose of VAT input credit or deductions.

Our comment

The proposed change is mainly aimed at aligning the VAT Act with the proposed implementation of the electronic invoicing system. The proposed change provides that tax invoices are to be issued using a prescribed invoicing system. This indicates that for the purpose of claiming input tax, taxable suppliers will need to have in their possession an invoice generated by a prescribed invoicing system (that is, the electronic invoicing system) as one of the requirements. This measure will improve compliance with the use of the proposed electronic invoicing system. We anticipate more clarity from ZRA on the import and ramifications of the "prescribed" invoicing system it is prudent to analyse cost efficient ways in which taxpayers may comply without detrimentally altering existing invoicing systems.

What this means for you

Taxpayers will only be able to claim input VAT using a valid invoice issued by the prescribed invoicing system. Taxpayers should consult and confirm that their invoicing systems are approved as well as their suppliers, to avoid disallowed input VAT credits.

Proposed change

Introduce a requirement in the VAT Regulations for provision of third-party information in the format prescribed by the Commissioner General

Our comment

With this proposed change, the Government aims to align the VAT Act with the provision of the Income Tax Act that provides for the furnishing of information to the Commissioner-General (i.e., Section 48 of the Income Tax Act). This proposed change increases the power of the Commissioner General to the detriment of the taxpayer. It will create undue burden on the taxpayers who would be obliged to disclose third party information. Practically, taxpayers would have no control over the acts of third parties and may not have the means to comply with this requirement. It would patently be unconstitutional to sanction a taxpayer over matters they have no control over. Further, it alarmingly appears that the ZRA intends on being exempted from the provisions of the Data Protection Act to allow it easier access to the third-party information, this change is not plausible as it infringes on the data safety of taxpayers. We are of the view that this proposal must not be legislated.

What this means for you:
If the proposed change is enacted, taxpayers must ensure to adhere to the formats that will be prescribed when providing third party information. Where the required format is not clear, taxpayers must clarify and agree with the ZRA.

Proposed change

Introduce a threshold of up to ZMW200 on outstanding liabilities/refunds for deregistration purposes of dormant taxpayers.

Our comment

A dormant company is defined in the Companies Act as a company which is not carrying on business or is not in operation from the date of incorporation or for a prescribed period.
The proposed amendment introduces a provision that empowers the Commissioner General to deregister dormant taxpayers with outstanding tax liabilities or refunds of up to ZMW200 from the VAT register. Currently, there is no threshold for VAT deregistration for dormant taxpayers.

Proposed change

Reinstate the exemption status on the supply of mains water and sewerage service.

Our comment

The supply of mains water and sewerage services is currently standard rated at 16%. The proposed measure seeks to reinstate the exemption status on mains water and sewerage services.

On one hand, the proposed change will alleviate the burden of increasing cost of water supplies as several provinces in Zambia are currently experiences water shortages due to environmental and water infrastructure challenges. On the other hand, the proposed change will increase the cost of doing business for the suppliers of water and sewerage services as they will not be able to recover any standard rated inputs.

5. Customs and Excise

Proposed change

To reduce clearance time at our borders, the Government will implement electronic data exchange for customs and make pre-clearance of customs goods mandatory as well as introduce a Single Payment Point to Collect statutory fees on behalf of other border agencies machines.

Our comment

The Government has noticed that one of the main challenges faced by traders who move goods through the borders of the country is the prolonged periods taken for the clearing process that is required for goods to be exported or imported. The process requires several documents depending on the category of goods that are being transported through the borders.
The implementation of the electronic data exchange for pre-clearance of customs is an effort from the Government to cut down on time spent at the borders allowing for a more efficient process for imports and exports. This proposed change will also enhance the country's trading portfolio in the region as it positions itself to benefit from markets such as the African Free Trade Continental Area (AfCFTA).

What this means for you

Once implemented, the proposed change will allow traders to efficiently transport and clear goods. In order to fully benefit from the reduced clearance time, traders should ensure that documentation required for customs duty is in order.

Proposed change

Remove Customs Duty on selected machinery and equipment used in the exploration of oil and gas.

Our comment

The removal of customs duty on machinery and equipment used in gas and oil exploration is a deliberate policy to attract domestic and foreign investments in this vital sector. This creates a favourable investment climate, encourages new projects and expansion of existing operations, and promotes increased investment in the oil and gas industry.

Proposed change

Remove customs duty on machinery, equipment, and other goods designed for geothermal energy activities.

Our comment

This proposed change aligns with the Government's ambitious target to produce 3million tonnes of copper by 2030 which will require a significant increase of electricity generation in order to be achieved. The proposed removal of customs duty on the machinery, equipment, and other goods designed for geothermal energy activities, will incentivise energy sector investment in the country.

What this means for you

This measure lowers the tax burden for investors and existing geo-thermal businesses operating in the energy sector.

Proposed change

Suspend Customs Duty on selected media, film, and music equipment for a period of 3 years.

Our comment

In the 2023 National Budget the Government placed some emphasis on supporting the gig economy to create greater opportunities for employment and investment in the media industry. The expansion of the list of equipment in relation to media, film, and music, is a continuation of the Government's efforts to implement the growth of the gig economy in Zambia.

Proposed change

Remove Customs Duty on the importation of motorcycles and tricycles imported in complete knockdown form for companies that assemble and source at least 5 % inputs locally.

Our comment

This measure is intended to encourage investment in the local assembly of motorcycles and tricycles. This measure creates cheaper alternatives to transport in the country, particularly in the rural areas.

Proposed change

Remove the 5% Selected Goods Surtax applicable on the following products which are not locally produced. As follows:

No.	Product	HS Code	Uses
1.	High Carbon Ferro	7202.41.00	Raw material used in the manufacturing of cast mill balls.
2.	Mild Steel (MS) Lancing Pipe	7306.90.00	Used in the Ferro Alloy industry.
3.	Carbon Paste	3801.30.00	Raw material used as input in the manufacture or electrodes
4.	Whey Powder	0404.10.00	Used in the dairy industry.
5.	Float Glass	7005.21.00 7005.30.00	Used in housing and construction
6.	Flanges of stainless steel	7307.21.00	Used in the steel manufacturing subsector
7.	Wire of iron or non-alloy steel - plated or coated with zinc	7217.20.00	Raw material used as input in the manufacture of steel wires
8.	Bars and rods, hot-rolled, in irregularly wound coils, of iron or steel of circular cross-section measuring <14mm in diameter	7213.91.00	Used as concrete reinforcement of concrete in the manufacture of concrete street lighting poles
9.	Flat-rolled products of other alloy steel of a width of grain-oriented silicon-electrical steel	7226.11.00	Used as an input in the manufacture of transformers
10.	(IV bags) Other articles for the packing of goods, of plastics	3923.90.90	Used to administer fluids and medications intravenously. They are typically made of plastic and have a number of features that make them suitable for this purpose, such as a port for the infusion of fluids and medications, and a valve to prevent backflow.

Our comment

This measure is intended to reduce the cost of critical inputs used in industrial process and promote growth in the local manufacturing sector.

The Government has noted the manufacturing sector as one of the sectors that is facing constraints and as such this measure put in place illustrates the Government's effort to remove one of the critical constraints in the sector which is the cost of operation.

Proposed change

Reduce Excise Duty on alcohol of HS code 2207.20.90 (Ethyl alcohol and other spirits, denatured, of alcoholic strength of less than 80%) from 125% to 60%.

Our comment

At present Ethyl alcohol and other spirits, denatured, of an alcoholic strength of less than 80% of the HS Code 2207.20.90 attract Excise Duty at the rate of 125%, on the other hand, other types of alcohol listed in the Customs and Excise Schedule are subject the rate of 60%. It appears that the Government has proposed this change to align the excise duty.

No.	Item	HS Code	Current Rate	Proposed Rate
1.	Tiles	6904.90.10	5%	30%
		6907	20%	
2.	Mattresses	9404.21.00	5%	20%
3.	Laminated panels for building and cold storage insulation	9406.10.10	0%	5%
4.	Glass	7005.10.00; 7005.29.00; 7003.19.00; 7003.30.00; 7004.90.00.	0%	5%
5.	Baby diapers	4818.40.10	0%	5%

Our comment

This measure is intended to align the surtax of the specified goods with other similar products. The proposed change places emphasis on the local manufacturing market instead of importation of the listed goods. It appears to be an incentive for local manufacturing which may have the ripple effect of job creation. Further, the measure by Government is revenue generating for the country to the extent that any importations of the prescribed goods will attract an increased surcharge. Government is revenue generating for the country.

Proposed change

Prescribe for the allowance of losses of up to 1% of cutrag (shredded tobacco) in the production of cigarettes and deem any losses above 1%to have been used in the production of cigarettes.

Our comment

This measure by Government is an anti-avoidance measure, intended to regulate the allowable losses in the production of cigarettes. Arguably, it aligns with the existing goal to prioritise health in the National Development Plan. The general impact is to discourage increased production of cigarettes in the country.

Proposed change

Remove 10% customs duty on the importation of rolling stock, including wagons and locomotives.

Our comment

This proposed change may be deemed to be premised on the intention to rehabilitate the railway systems in Zambia at a reduced cost. Although this is a step in the right direction, there is still more that needs to be done for the desired aim to be achieved. The current state of the railway system will at least require new rail tracks, supporting infrastructure and improved signaling in order to effectively function. We contend that these should also benefit from relief.

Proposed change

Remove customs duty on electric motorcycles, electric vehicles, electric buses, electric trucks, and attendant accessories such as charging systems; and reduce excise duty to 25% from 30% on hybrid vehicles designed for the transportation of persons.

Our comment

Climate change has negatively impacted the world and its impact cannot go unnoticed. Due to climate change, countries are experiencing floods, prolonged droughts, and huge fire outbreaks. Zambia currently has experienced droughts and floods in some places which has contributed to poor harvests and the country's food security.

Therefore, the Zambian Government remain committed to reducing greenhouse gas emissions. The Government remains consistent with the first National Determined Contribution in which it pledged to reduce emissions by 25% by 2030. To adapt to the adverse effects of climate change and build resilience, the Government has proposed to remove customs duty on the electric vehicles, electric buses, electric trucks, and attendant accessories and further proposed to reduce excise duty to 25% from 30% on hybrid vehicles designed for the transportation of persons.

The above measure is aimed at mitigating greenhouse gas emissions, promoting sustainable development, and enhancing the country's resilience to the impact of climate change.

We note however, that the infrastructure and systems required to maintain and operate electric vehicles still require development in Zambia. This includes charging and servicing infrastructure. The

Proposed change

Remove customs duty on electric motorcycles, electric vehicles, electric buses, electric trucks, and attendant accessories such as charging systems; and reduce excise duty to 25% from 30% on hybrid vehicles designed for the transportation of persons.

incentives must go beyond the electric vehicle and also extend to the related infrastructure.

What this means for you

This measure lowers the tax burden for the taxpayer on the acquisition of electric motorcycles, electric vehicles, electric buses, electric trucks, and attendant accessories. By removing and reducing customs and excise duty respectively, The Government is encouraging citizens to move away from fuel consuming vehicles to electric vehicles. Further, the measure will help reduce carbon emission and position the country in the sustainable and technologically advanced transportation sector.

Proposed change

Provide for the extension of the validity period for the Customs Duty incentives accessible by the developer of a Multi-Facility Economic Zone up to 15 years from 5 years, upon fulfilment of the conditions as may be prescribed.

Our comment

The Minister may, on the recommendation of the Director General of the Zambia Development Agency approve a rebate, refund or remission of the whole or any part of the customs duty paid or payable in respect of machinery and equipment and other goods specified in the bill of quantities submitted with an application for an approval required for the development of the multi-facility economic zone or an industrial park.
Under this Regulation, a customs duty rebate is granted to machinery and equipment and other goods specified in the bills of quantities submitted with an application for an approval, to be used for development of a Multi-Facility Economic Zones. Currently, the validity period for the Customs Duty incentives accessible by the developer of a Multi-Facility Economic Zone is 5 years. By extending the validity period to 15 years, this reduces the tax burden of the taxpayer as it reduces upfront costs associated with the importation of necessary raw materials and construction materials.

Proposed change

Suspend the Excise Duty rate by 50 % on locally produced clear beer, for a period of 3 years for small and medium manufacturers that produce less than 500,000 litres per annum.

Our comment

In line with 2024 theme of unlocking economic potential and without leaving all economic players behind, the Government continues to promote growth and expansion of small and medium beer manufacturers. The Government has proposed the suspension of excise duty as an incentive for taxpayers to encourage investments. The tax savings from the reduced excise duty will be reinvested in expanding production capacity, improving infrastructure, and upgrading equipment. This, in turn, will support business growth, create employment opportunities, and contribute to the overall economic development of the sector.

Further, the suspension of excise duty rates on clear beer for small and medium manufacturers by the Government indirectly encourages the development of local production capacities and supports the growth of the domestic beer industry.

Proposed change

Increase the specific Excise Duty rates for tobacco and tobacco products to ZMW400 per mille from ZMW361 per mille.

Our comment

This is a revenue generating measure by Government as increased excise duty will be payable on tobacco and tobacco products.

Proposed change

Introduce Excise Duty at 5% on Coke and semi-coke of coal, of lignite or of peat, whether or not agglomerated of HS Code 2704.

Our comment

The measure will also contribute towards revenue generation for the Government.

Proposed change

Increase the specific Excise Duty on non-alcoholic beverages (including UHT juices) to ZMW0.60 (60 ngwee) per litre from ZMW0.30 (30 ngwee).

Proposed change

Change the basis of excise valuation for spirits, liqueurs, and other spirituous beverages to be determined on the basis of market price and not the value of the input at importation.

Our comment

The impact of this measure is that more excise duty per unit will be payable for spirits, liqueurs, and other spirituous beverages. This is because the market price which will be the basis of valuation is likely to be much higher than the value of input at importation. Final consumers should therefore expect higher shelf prices.

HOUSE KEEPING MEASURES

Proposed change

Amend the Customs and Excise Act to limit the period within which the payment for a Customs Agents License fee can be made to three months.

Our comment

Currently, there is no specified time limit for the payment of licence fees by Customs Agents. On one hand, this measure will function to ensure compliance by the Customs Agents as well as ZRA in reducing the accumulation of unpaid fees. On the other hand, to ensure effectiveness, we contend that there should be a central platform accessible to traders for them to confirm the validity paid-up customs agents.

Proposed change

Amend the Customs and Excise Act to provide for a penalty for failure to make payment for a Customs Agents License fee within three months.

Our comment

The measure introduces a penalty in the Customs and Excise Act for individuals or businesses who fail to make payment for a Customs Agents License fee within a three-month period. By implementing such a penalty, it aims to encourage timely fee payment and ensure compliance with the payment requirements. The introduction of penalties can serve as a deterrent, holding accountable those who do not fulfil their financial obligations associated with obtaining a Customs Agents License.

Proposed change

Amend Sections 32(4) and 33(1) of the Customs and Excise Act to reduce the time in which goods moved in bond are to be bonded or finally cleared to 5 days from 15 days.

Our comment

This measure is intended to decrease the time frame allowed for goods to be taken in bond from the port of entry and either consumed or held, reducing it to 5 days. It aims to ensure prompt and accountable management of goods in bond, minimizing domestic revenue leakages for the ZRA. Additionally, this measure aims to harmonize the allotted days for goods in bond with those for goods in transit through Zambia, promoting consistency and uniformity in customs processes. However, it does present practical challenges in separating goods in bond and goods in transit such as fuel. A five-day time period is relatively short in practice and ZRA should provide practical guidance on how to categorially separate the imports without delay, to avoid non-compliance.

Proposed change

Amend Section 2 of the Customes and Excise Act to change the name of the Division from the "Customs and Excise Division" wherever it appears in the Act to the "Customs Services Division".

Our comment

We recommend that the Customs and Excise legislation be separated as the two are overseen by different divisions. This will enable more bespoke coordination and tax specific oversight.

Proposed change

Amend Section 2 (b) of the Customs and Excise Act by the deletion of the definition of "Electronic Fiscal Device" and replace with the following new definition:

"prescribed invoicing system" refers to a system that transmits production, invoicing and stock data to the electronic invoicing system and includes software applications, web-based applications and invoicing systems approved by the Commissioner General.

Our comment

This proposed measure is also being suggested under VAT, this change seeks to encourage real time access to business transactions.

We reiterate that the roll out of the electronic invoicing should take a phased approach and incorporate a trial period with the date of full commencement to be determined and communicated by the Commissioner General.

This would allow for any technical challenges experienced during trial to be addressed prior to commencement.

Proposed change

Amend Section 188A (1) of the Customs and Excise Act to replace the words "Electronic Fiscal Device" with the words "prescribed invoicing system".

Our comment

This measure is to ensure that the Act is in line with the implementation of an electronic invoicing system for issuing invoices related to Excise Duty charges. The measure seeks to update the Act to align with the use of electronic invoices, ensuring that the legal framework supports and regulates this new invoicing method effectively. The goal is to streamline processes and enhance compliance by integrating electronic invoicing seamlessly into the existing regulatory framework.

Proposed change

Amend the Fourth Schedule (The Selected Good Surtax Schedule) to the Customs and Excise Act, Cap 322 by inserting the rate of "5 %" against Malted millet or sorghum not roasted of HS Code 1107.10.30.

Our comment

This measure is intended to amend the fourth schedule of the Customs and Excise Act, specifically to include a clear provision for a 5% surtax on HS Code 1107.10.30, which pertains to malted millet or sorghum that has not been roasted. The measure provides clarity and transparency regarding the imposition of a 5% surtax on specific products. By clearly outlining the amendment to the fourth schedule of the Customs and Excise act, businesses and individuals involved in the import or export of malted millet or sorghum can easily understand and comply with the surtax requirement initiatives or services seamlessly into the existing regulatory framework.

Proposed change

Amend the Fifth Schedule of the Customs and Excise Act by deleting the words 'transaction value' in Clause 3(1) and substituting it with the words 'customs value'.

Our comment

The objective of this measure is to ensure alignment between Clause 3 of the Fifth Schedule of the Customs and Excise Act and Article 8 of the World Trade Organisation Valuation Agreement. Currently, there is an inconsistency in the language where "transaction value" is used instead of "customs value". The purpose of this measure is to correct this error and harmonize the wording to accurately reflect the intended meaning.

Proposed change

Extend the working hours at Mokambo, Kipushi and Sakania to all hours of the day and night (24hrs) from 8 hours a day and designate the border posts as Customs Houses.

Our comment

This measure aims to promote trade facilitation by extending the operating hours at the Mokambo, Kipushi, and Sakania borders. This extension aims to accommodate increased trade activities and enhance efficiency. Additionally, the measure intends to designate these borders as Customs Houses, enabling them to process bills of entry and further streamline trade processes. The initiative to reduce congestion is praiseworthy, but in order to be fully beneficial, it is important to upgrade the road network that leads to these ports of entry.

Proposed change

Amend the text on HS Code 2202.10.10 to include the words "other waters other than mineral waters" in the appropriate place.

Our comment

This measure is to bring conformity between the description of HS Code 2202.10.10 in the National Tariff Book and the World Customs Organisation (WCO) HS 2022 version. This alignment ensures consistency in the classification and description of goods for international trade, promoting accurate classification, streamlined customs procedures, and adherence to global trade standards.

Proposed change

Amend Part XA of the Customs and Excise (General) Regulations to align some of its provisions to the Zambia Development Agency Act, 2022 and the Investment, Trade and Business Development Act, 2022 administered by the Zambia Development Agency.

Our comment

This measure intends to update Part XA of the Customs and Excise (General) Regulations, which currently references a repealed ZDA Act from 2006, in order to align it with the Acts currently administered by the Zambia Development Agency (ZDA). This update ensures that the provisions accurately reflect the applicable laws for tax and investment incentives, providing clarity and consistency in their implementation.

Proposed change

Amend the Customs and Excise Act, Cap 322 of the Laws of Zambia to provide for the pilot in charge of an aircraft to submit a manifest cargo within the following stipulated times:

i. At least two (2) hours before arrival for aircraft from Africa;

ii. At least four (4) hours before arrival for aircraft from other Continents; or

iii. As the Commissioner General may determine (With the exception of shorter flights).

Our comment

This measure is intended to accelerate the processing of courier cargo upon arrival and improve security measures through the utilisation of advance electronic information. This is in accordance with Article 7.8 (Expedited Shipments) of the Trade Facilitation Agreement (TFA). Currently, the Customs and Excise Act does not include a provision mandating the timely submission of a manifest by the pilot in charge of an aircraft. The proposed measure aims to establish a mandatory requirement for submitting manifests within a specified timeframe, improving operational efficiency, and enabling more effective assessment and management of consignments.

Proposed change

Amend Sections 144 and 145 of the Customs and Excise Act to provide for the following offences that will relate to the Electronic Cargo Tracking (ECT) System:

a. Parking in a designated area beyond the prescribed period;

b. Parking in an undesignated area;

c. Possession of an electronic seal without authority;

d. Failure by the transporter of goods, to disclose all the sealable points on the vessel; and

e. Tampering or manipulation of an electronic seal in order to evade payment of duty.

Our comment

The primary objective of the ECT (Electronic Cargo Tracking) system is to facilitate faster clearance and shipment processes. As such, this measure will aid in achieving the aim through the introduction of the stipulated punitive measures.

Proposed change

Amend the Customs and Excise Act to prescribe a penalty not exceeding fifty thousand fee units or imprisonment for a period not exceeding 1 year, or to both on offences relating to Electronic Cargo Tracking system.

Our comment

The measure is intended to introduce penalties for offenses specifically associated with the improper use or abuse of electronic cargo tracking devices. It aims to deter and address actions that violate regulations or misuse these devices. By doing so, the measure seeks to ensure the appropriate and lawful utilisation of electronic cargo tracking devices, enhancing their effectiveness in monitoring and securing cargo during transportation

Proposed change

Amend Section 41 (1) of the Customs and Excise Act to restrict the importation of alcohol with an alcoholic content of above 80% to licensed manufacturers of alcoholic spirits and other users approved by the Commissioner General.

Our comment

This measure is to enhance the traceability of alcohol used in industrial applications and prevent revenue losses by implementing restrictions on importation. Currently, there are no limitations in place, resulting in non-compliance by certain taxpayers. To address this, the measure aims to restrict alcohol importation to licensed manufacturers and approved users. By doing so, the measure promotes compliance, reduces the risk of tax evasion, and ensures that only authorized entities can import alcohol for industrial purposes.

Proposed change

Amend Section 69 of the Customs and Excise Act/ Regulation 47 Customs and Excise (General) Regulation 2000 to introduce security deposit or bond guarantee on all exports from a bonded warehouse.

Our comment

The measure's objective is to address the potential loss of revenue when goods declared for export from bonded warehouses are actually consumed within Zambia. Under the Customs and Excise Act there are no security measures or bond guarantees in place to prevent this domestic revenue leakage. The measure aims to rectify this by implementing safeguards to ensure that goods declared for export are genuinely exported. This will prevent tax evasion and revenue losses. The measure seeks to enhance oversight, promote compliance, and safeguard the country's revenue.

Proposed change

Amend Section 171B of the Customs and Excise Act to define irrecoverable debt and provide conditions that the Minister may consider for debt remission.

Our comment

The amendment proposed for Section 171B in the Act is to ensure that the interpretation of irrecoverable debt is concisely understood in order to stop the accumulation of tax debt. As it stands Section 171B of the Customs and Excise Act provides an understanding of irrecoverable debt that may be seen as including debt that may not be categorized as irrecoverable and as a result, erroneously accumulate debt.

Proposed change

Amend Regulation 137 of the Customs and Excise General Regulations to provide for use of an Electronic Bond where systems for issuance of such bonds exist.

Our comment

The objective of this measure is to introduce the issuance of electronic bonds. These electronic bonds are designed to mitigate the risk associated with bond alteration, which could potentially result in domestic revenue loss. By implementing this system of electronic bonds, the measure aims to prevent fraudulent manipulation or alteration of bonds, ensuring the security and integrity of the bond process.

Proposed change

Amend Section 55(3) of the Customs and Excise Act to include the date by which submissions of applications for renewal of a bonded warehouse license can be made, to at least 90 days before the end of the financial year.

Our comment

Currently, there is no deadline for the submission of renewal applications for bonded warehouse licenses. However, the proposed amendment aims to establish a specified date for these renewals. The purpose is to allow enough time for due diligence to be conducted by ZRA before issuing licenses for a prescribed period. This change ensures a structured and thorough review process, promoting compliance and reducing potential risks associated with bonded warehouse operations.

6. Tax Administration Measures

Proposed change

Introduce a Unified Tax Administration Act (TAA) by 2025.

Our comment

Currently, tax administrative provisions are housed under each tax act, with different approaches to tax administration. Furthermore, a number of tax administrative provisions are not anchored in constitutional principles. These include the right to a fair hearing and speedy administration of justice. We welcome that Ministers announcement that Government will introduce a TAA. The TAA should among other include:

- Administrative justice provisions which would set out the rules and guidelines that the ZRA must follow when making decisions and also require the ZRA to give reasons for their decisions. This would include updating the Taxpayer Charter accordingly to reflect these values.
- Provisions relating to administration of tax audits including timelines for both the ZRA and the taxpayer.
- A permanent Voluntary Disclosure Programme whereby taxpayers can approach the ZRA to rectify pervious defaults under any domestic tax legislation.
- A system of Binding Rulings that provide taxpayers with the ZRA's interpretation of how a tax law applies to a particular arrangement or transaction. Taxpayers should be able apply for a binding ruling especially or proposed transactions in instances where;
  - the law is unclear and there is more than one possible interpretation
  - new legislation applies to the transaction
  - the transaction is novel, sensitive or controversial
  - the arrangement raises significant issues or may have a wide impact
  - the arrangement is a complex financing transaction

Proposed change

Introduce a Unified Tax Administration Act (TAA) by 2025.

- Provisions relating to arbitration procedures as it appears from the provisions of the ITA that ZRA's final assessment can only be set aside by the Tax Appeals Tribunal ("TAT") or a superior Court on appeal. Current arbitration provisions are not binding on the ZRA.
- Provisions relating to a Tax Ombudsman, given that currently, save with the intervention of the TAT, the ZRA is effectively its own regulator. As such, there is not avenue for review of administrative decisions except the taxpayer approaching the TAT. As the Latin maxim says "Nemo iudex in causa sua" meaning, "No one should be a judge in his own case." There is need for an independent Ombud that will exercise oversight over the ZRA's administrative actions. This has been a successful model in other Commonwealth jurisdictions including the UK, Canada and South Africa. The mandate of the Tax Ombudsman would include to review and address complaints by taxpayers regarding service or procedural administrative matters.
- Safeguarding taxpayer rights during audits and criminal investigations. Taxpayers under audit are always at risk that an audit inspection could turn into a criminal investigation without their rights being read to them. This needs to be addressed in a unified Tax Administration Act with the requirement that routine audits and criminal investigations are separated, ensuring that the Constitutional Rights of taxpayers are protected.

Proposed change

Exempt the Zambia Revenue Authority from the provisions of the Data Protection Act No.3 of 2021.

Our comment

The Data Protection Act No.3 of 2021 establishes a structure governing the utilisation and safeguarding of personal data. As such, it is our contention that this proposed change would be an unwarranted infringement on the data rights of taxpayers and should not be enacted.

Proposed change

Amend the Zambia Revenue Authority Act to provide for the reward of Whistle-blowers.

Our comment

This measure is intended to encourage individuals to report misconduct in relation to tax compliance, to reduce tax evasion and to plug revenue leakages in accordance with the international good practice.

Proposed change

Amend Section 48A the Income Tax Act to empower the Commissioner General to request for information from regulators.

Our comment

Section 48A of the Income Tax Act provides that any confidentiality obligations or other limitations on sharing information imposed by the Banking and Financial Services Act, the Evidence (Bankers Books) Act, the Accountants Act of 2008, and the Legal Practitioners Act, concerning the information needed by the Commissioner-General will not be in effect.

This measure aims to include the provision concerning secrecy or other restrictions on the disclosure of information under Section 48A of the Income Tax Act to regulators in order to harmonise with international good practice in taxation and anti-money laundering.

Proposed change

Introduce a levy of between ZMW0.08 and ZMW1.80 on the transactions value for person-to-person mobile money transfers. The following is the proposed fee structure:

Amount Range (ZMW)	Proposed Levy (ZMW)
From 1 to 150	0.08
Between 150 and 300	0.10
Between 300 and 500	0.20
Between 500 and 1,000	0.50
Between 1,000 and 3,000	0.80
Between 3,000 and 5,000	1.00
Between 5,000 and 10,000	1.50
Above 10,000	1.80

Our comment

While the objective is to boost domestic revenue, this may lead to increased operational costs, especially within the informal sector and gig economy. The Government and telecommunication companies need to devise innovative methods to generate revenue from this sector without restricting business growth.

Government could realise more revenue by enhancing compliance by traders that receive payment through mobile money and thereby circumvent the requirement for point-of-sale devices.

Proposed change

Introduce a provision in the Tourism Levy Act under Regulation 4 to allow a tourism enterprise or tourism facility use a prescribed invoicing system to record all transactions relating to Tourism Levy and issue an invoice.

Our comment

This measure aims to make it mandatory for taxpayers in the tourism and hospitality sector, who are registered for the tourism levy, to utilize an electronic invoicing system for issuing tax invoices. The goal is to enhance efficiency, accuracy, and compliance in invoicing processes, promoting proper documentation and reporting of the tourism levy for tax-related purposes.

Proposed change

Introduce a provision to compel the taxpayer to pay the tax liability after a fine has been imposed by the courts for the offence of tax evasion.

Our comment

Generally, there is a misunderstanding that the fine imposed by courts for the offence of tax evasion includes the tax liability and absorbs the taxpayer from settling the tax obligation. This measure aims to provide clarity and emphasis that the taxpayer will also be obligated to pay the evaded taxes upon conviction in addition to the fine imposed by the court.

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