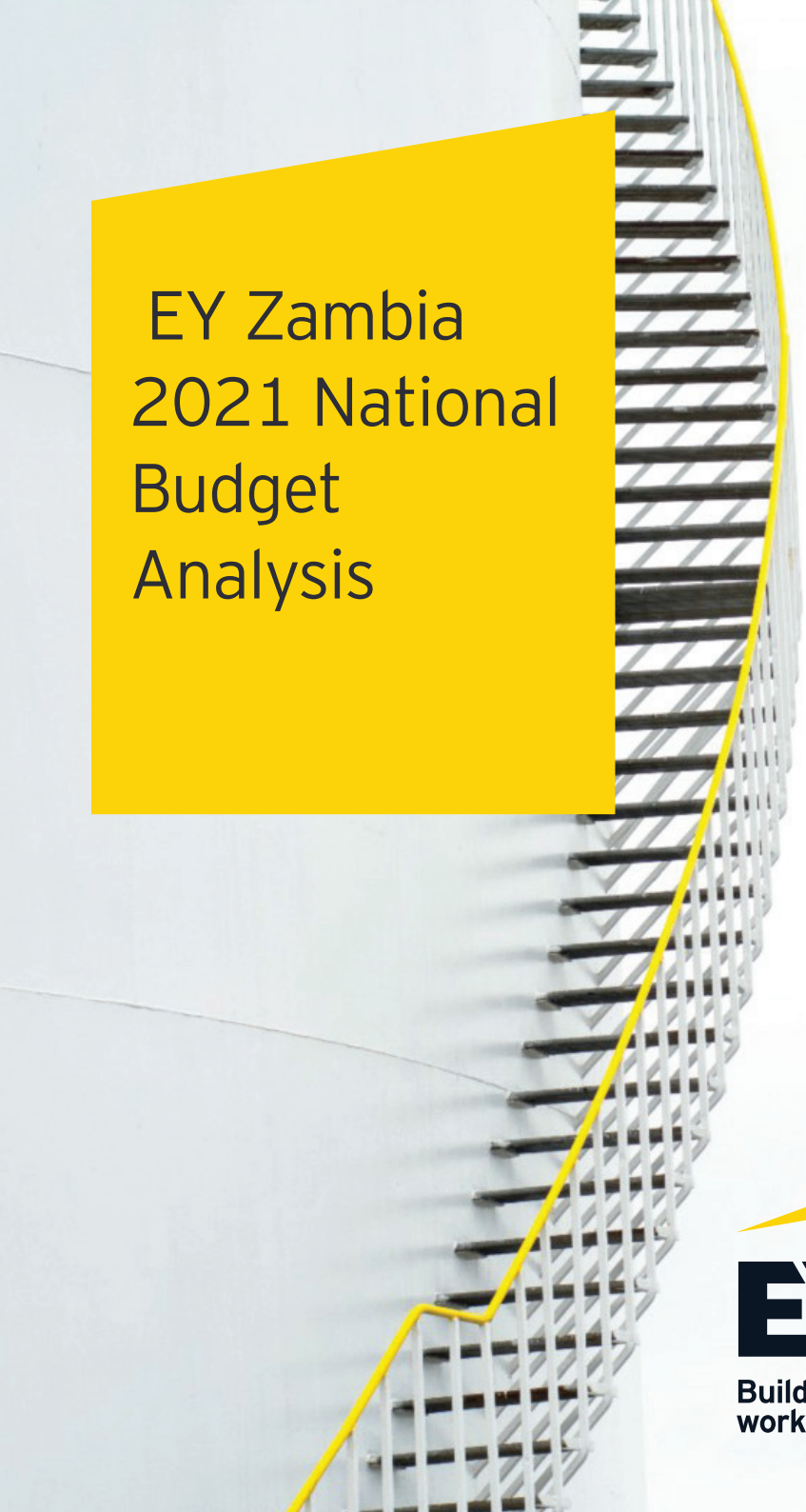
EY Zambia 2021 National Budget Analysis



Building a better working world

Disclaimer

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgement. Neither EY Zambia nor any other member of the global EY organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

EY

Building a better working world

Contents

About EY Zambia

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

The firm is one of the longest-established auditing, advisory and tax firms in the region offering an unrivalled pool of specialists in business related services. 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.

EY is a thorough professional services organisation, with its network gathering national offices all over the world, united by a single operating structure and a common culture of innovation and knowledge sharing. This unique "One-Firm" approach qualifies the people of EY to serve clients by bringing together any of the more than 20 competencies which transcend geographic borders and organisational lines. EY's global presence and integration has been a critical success factor in delivering value to our clients as well as broadening their views by exposing them to global best practice as well as developments in their respective industries across the world.

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, transaction and advisory services. Worldwide, our 260,000 people are united by our shared values and unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Increasingly our clients and our people expect us to be more global in our outlook, more integrated in our thinking and more inclusive in our approach. EY has been proactive in responding to the globalisation of our clients by integrating our country practices across Europe, the Middle East, India and Africa. This bold move has brought together over 125,000 EY people in 97 countries generating revenues of $13 billion. We are the first of the Big 4 firms to achieve a level of integration of this scale and scope and believe we have set a new standard in professional services by bringing a truly borderless approach to our clients.

EY currently has representation in most African countries. Our network throughout Africa ensures that communication is responsive to the needs of our clients, thereby stimulating trade and enhancing business relationships. We offer an invaluable "on the ground" service to investors, and can provide expert advice on local taxes, customs and systems, as well as introductions to influential local contacts.

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 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 has to be connected. EY's Connected Tax offers both a blueprint and a business platform for building a future-proof Tax function that can help you respond to demands.

If your organization is looking to drive value, manage costs and mitigate risk, EY Connected Tax can help you design and implement the effective means of operating a business tax function. We help define what it means to operate "best in class" and "best in cost," with a blueprint for dividing functional activities to reach the desired result from technology to talent.

We have both a blueprint and a business platform for building the kind of future-proof tax function that helps you respond to demands, while also laying the groundwork for a transformed tax function fit for ongoing change.

2021 National Budget Overview

The 2021 National budget presented by the Honourable Minister of Finance on 25th September 2020 is themed "Stimulate Economic Recovery and Build Resilience to Safeguard Likelihoods and Protect the Vulnerable" and is aimed at stimulating economic recovery through practical and tangible support to businesses. The budget also enhances social protection response programmes to prevent the worsening of poverty levels despite constrained fiscal conditions.

The budget has been designed with a view to mitigating the negative effects of the COVID - 19 pandemic through a medium - term Economic Recovery Programme (ERP). The programme is a successor to the Economic Stabilisation and Growth Programme (ESGP) which ended in 2019 and provides incentives to reinvigorate growth and build resilience while safeguarding livelihoods and protecting the vulnerable. It also contains measures to restore debt sustainability.

In order to achieve the budget objectives and targets for 2021, Government has proposed to spend K119.6 billion (2020: K106.0 billion).

K65.9 billion (2020: K71.9 bn)

Domestic revenue

K1.99 billion (2020: K3.1bn)

Foreign grants

K17.4 billion (2020: K3.5bn)

Domestic borrowing

K34.2 billion (2020: K27.7bn)

Foreign financing

Zambia's Policy Responses to COVID – 19

Fiscal Measures

- In favour of the mining industry, import duties on mineral concentrates and export duties on precious metals were suspended and then removed (import duty on concentrates).
- The government removed tax penalties and fees arising from COVID-19 on unpaid tax liabilities. Customs duties and VAT on certain medical equipment and medical related goods have been suspended.
- Zambia also removed provisions related to claiming VAT on imported spare parts, lubricants, and stationery, in order to ease pressure on companies.
- A K8 billion COVID – 19 bond (2.4 % of GDP) has been issued by Government to fund COVID-19 related expenditures, including health spending, arrears clearance, and grain purchases, as well as development bank recapitalization (NATSAVE).

Monetary and Macro – Financial Measures

- To alleviate the adverse effect of the pandemic, the Bank of Zambia's Monetary Policy Committee lowered the Monetary Policy Rate (MPR) by 225 bps to 9.25% on May 19 and by 125 bps on August 19 in 2020.
- The Bank of Zambia (BoZ) aims to provide medium-term liquidity support of 10 billion Kwacha (3.1% of GDP) to qualifying providers of financial services, as well as to scale up open market operations to provide commercial banks with short-term liquidity support.
- In addition, BoZ has introduced a range of steps aimed at stimulating the use of e-money and reducing the use of currency, revised the rules regulating the activity of the interbank foreign exchange market to facilitate its smooth functioning by strengthening market discipline and providing a framework to cope with increased volatility, revised the rules on the classification and provisioning of loans and extended the transitional arrangement to IFRS 9.
- BoZ has allowed providers of financial services to renegotiate credit facility terms with borrowers impacted by the pandemic. For the purposes of computing regulatory capital, non-bank financial institutions have been permitted to use capital instruments which do not qualify as common equity Tier 1 and Tier 2 capital.
- BoZ has also introduced arrangements for the participation of domestic and non-resident financial institutions in foreign exchange swaps and has expanded the requirement for mining companies to pay in US dollars for all their regulatory obligations.

Performance of 2020 National Budget

The 2020 national budget whose was themed "Focusing National Priorities Towards Stimulating the Domestic economy" and prioritised the creation of fiscal space, ensuring debt sustainability and dismantling domestic arrears.

The projected total budget for the year was K106 billion (32.4% of GDP) of which 67.8% of the amount was to be financed from domestic revenues while 26.1% was to be funded from external financing and the balance from both domestic borrowing and foreign grants.

In 2020, Government had sought to achieve the following five (5) macroeconomic objectives within the spirit of achieving more with less coupled with reduction in wasteful expenditure:

i. To achieve a real GDP growth of at least 3%;
ii. To achieve and maintain inflation within the 6-8% target range;
iii. To increase international reserves to at least 2.5 months of import cover;
iv. To reduce the fiscal deficit to 5.5% of GDP; and
v. To increase domestic resource mobilization to at least 22% of GDP.

Current projections show that the Zambian economy is projected to contract by 4.2% in 2020 as opposed to the 3% growth target envisaged during the presentation of the 2020 national budget. The main factors explaining this performance are as follows:

i. The adverse impact of the COVID -19 pandemic on general economic activity which has led to a substantial decline in consumer and investment spending due to disruptions in business operations;
ii. Disruptions in power supply due to low electricity generation;
iii. Rising costs of production largely associated with rising energy costs and depreciating currency; and
iv. High public debt, leading to higher debt servicing costs, inevitably taking away social and productive sector public spending.

The sectors that have been adversely affected by the pandemic and other factors are tourism, wholesale and retail trade, and construction.

Annual overall Inflation has remained substantially above the target range of 6-8% envisioned by the 2020 national budget, and as at September 2020 stood at 15.7%. Average food inflation has remained relatively stable at around 16% with minor upward and downward adjustments while non – food inflation has been on the upswing from 7.8% in December 2019 to 17.7% as at September 2020. The upside pressures on overall inflation over this period have therefore emanated from non-food inflation.

Inflationary pressures over this period have mainly been on account of higher fiscal deficits, deeper than projected global and domestic economic contractions, and pass – through effect from the depreciation of the Kwacha against the US dollar.

Gross International Reserves declined to US$1.38 billion as at end of July 2020 from US$1.45 billion as at end – December 2019. This is equivalent to 2.3 months of import cover in contrast to the 2.5 months of import cover target in the 2020 national budget. With three (3) months remaining before the end of the year, this may appear encouraging but may not be so as the current reserve position is not due to increases in export earnings but rather a reduction in imports resulting from effects of the COVID-19 pandemic.

Fiscal pressures, however, remained elevated in the first half of 2020 compounded by measures taken to contain the COVID – 19 pandemic. Preliminary data shows a sharp drop in revenue inflows during the same period. Revenues and grants are projected at K65.9 billion by the end of 2020 translating into 14.0% below the target of K75.0 billion. Therefore, estimations indicate a much larger than the envisaged 5.5% fiscal deficit by the 2020 national budget. On a cash basis, the fiscal deficit is now expected to rise to 11.7% of GDP by the end of 2020. The outturn has been attributed to a rise in expenditure on COVID – 19 mitigating measures, agriculture related expenditures, a fall in revenues and lower disbursements on foreign projects. In 2019, the Zambia Revenue Authority is reported to have surpassed its revenue target, the substantial contraction in economic activity in 2020 is expected to lead to failure in achieving the 22% of GDP estimation in domestic resource mobilisation.

The outturn has been attributed to a rise in expenditure on COVID – 19 mitigating measures, agriculture related expenditures, a fall in revenues and lower disbursements on foreign projects. In 2019

With regards to the country's debt position, in the first half of 2020, the external debt stock increased by 4.3% to US $11.97 billion from U$11.48 billion at end-December 2019. This was mainly on account of new disbursements on existing loans which were used to finance various projects in energy, education, road and health sectors. The largest growth in debt of 9.9% was recorded under multilateral creditors. This was followed by Exports and Suppliers Credit at 6.73%, and private credit with an increase of 1.1%.

With the 2020 performance of the national budget in view, it is expected that the economic recovery strategies and measures in the 2021 national budget will lead to addressing of the fiscal deficit, rising inflation, depreciating Kwacha, domestic resource mobilisation, resuscitation of economic activity, especially in priority sectors.

2021 National Budget

The 2021 national budget has been prepared amidst numerous socio – economic and environmental challenges exacerbated by the COVID – 19 pandemic which has resulted in an unplanned escalation in health related expenditure.

The global economy is expected to contract by 4.9% while in Sub Sahara Africa, economic activity is projected to decline by 3.2% from a positive growth of 3.2% in 2019 mainly due to the COVID – 19 pandemic. The focus of Government in the medium term as detailed in the medium – term ERP, therefore, is to contain the spread of the corona virus, mitigate the effects of the pandemic and restore macroeconomic stability as well as grow the domestic economy. In the 2021 budget Government also prioritises attaining fiscal fitness, restore debt sustainability, dismantle domestic arrears and safe guard social protection spending.

In view of the focus of the 2021 national budget, Government has set the following macroeconomic objectives in 2021 and herewith under our commentary:

Achieve a real GDP growth rate of at least 1.8% (2020: 3%)
Commentary: The attainment of the objective is dependent on the length of the COVID – 19 pandemic, the required lockdowns and foreign debt management. The fundamental uncertainty surrounding economic recovery in 2021 is the evolution of the pandemic and its effects on economic activity and the business environment coupled with issues of possible default by Government on its debt obligations. The real GDP growth rate target for 2021 though being modest at 1.8% compared to 2020 target of 3% may not be attained on account of constrained fiscal space worsened by huge foreign debt obligations, and absence of an IMF supported economic recovery programme.

Reduce the inflation rate towards the 6 to 8% medium – term target
Commentary: This objective has not been attained as at September 2020 and is unlikely to be attained by end 2020 as it is currently hovering around 16%. Our expectation is that overall annual inflation will remain above the upper bound of the

Due to continued subdued economic activity on account of the COVID – 19 pandemic, as well as reduced revenue collections and increased expenditures on health, it is unlikely that this target would be met in 2021.

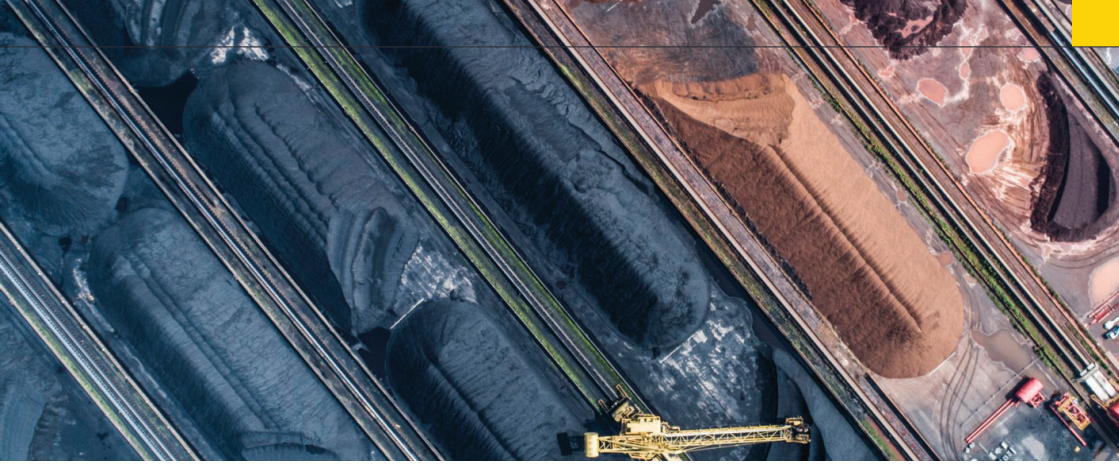
6 – 8 % medium term range but will steadily decline dependent on good agricultural output in 2020/2021 season, improved electricity supply and government managing to lengthen tenors of its foreign debt resulting in reduced foreign debt servicing. This should be supported by an appropriate monetary policy stance, fiscal discipline and adherence to set austerity measures. However, we expect fiscal pressures to remain elevated on account of measures to contain the COVID – 19 pandemic and general elections related expenditures.

Increase Gross International Reserves to at least 2.5 months of import cover (2020: 2.5 Months)
Commentary: It is important to note that as at end of December 2019, the Gross International Reserves (GIR) stood at US$1.45 billion and declined to US$1.38 billion as at end July 2020 representing 2.3 months of import cover. In 2020, Government intended to increase GIR to not less than 2.5 months of import cover. With three (3) months still remaining before the end of 2020, it is hoped that the intended object may be met. However, this may not be so due to the COVID – 19 pandemic resulting in subdued economic activity and consequently leading to declining supply of foreign exchange from the mines and foreign financials.

In 2021, this objective of meeting at least 2.5 months of import cover may not be met if it is not attained at the end of 2020 because of COVID – 19 pandemic containment measures and elections related expenditures as well as debt servicing obligations.

Reduce the fiscal deficit to 9.3% of GDP (2020: 5.5%)
Commentary: Fiscal deficit in 2020 on a cash basis is expected to close the year at 11.7% and could be much higher if considered on both cash and commitment basis. Due to continued subdued economic activity on account of the COVID – 19 pandemic, as well as reduced revenue collections and increased expenditures on health, it is unlikely that this target would be met in 2021. This is likely to be worsened by tight liquidity conditions on the domestic market and increased debt servicing obligations.

Achieve domestic revenue collections of not less than 18.0% of GDP (2020: at least 22%)
Commentary: This objective is only attainable if economic recovery is enhanced and businesses pick up which is unlikely. We expect lower than targeted domestic revenue collections in 2021 on account of pervasive uncertainty and continued high risks posed by the COVID – 19 pandemic. This can only be countered by increase in compliance levels for most tax measures. We reiterate what we indicated in our commentary for the 2020 budget that this could also be enhanced by increase in the tax base as well as introduction of innovative revenue collection measures that minimizes leakages, such as the newly implemented Whatsapp Tax Payments.



2021 National Budget Sector Policies

In seeking to achieve the macroeconomic objectives earlier outlined, Government has proposed a number of sector policies grouped under pillars in line with the seventh National Development Plan (7NDP) but for the purpose of summary, pillars have been left out in this economic analysis:

Economic Sector	Sector Policies
Agriculture, Fisheries and Livestock	▶ To improve productivity of small – scale farmers in 2021, extension services will be strengthened and that all Farmer Input Support Programme (FISP) beneficiaries will adopt climate smart agriculture technologies and practices. ▶ All beneficiaries under the FISP will be migrated to the cost effective e-voucher system over the medium – term. ▶ In 2021, K5.7 billion has been provided for FISP targeting one million farmers across the country (2020: K1.1 billion). ▶ In 2021, K517.5 million has been set aside for the national strategic food reserve (2020: K660 million). ▶ In the 2019/2020 farming season, Government will continue with the Livestock stocking and Restocking Programme out of which at least 30% of the beneficiaries are youths. ▶ In 2021, the Zambia Aquaculture Enterprise Development Project under implementation through the Citizens Economic Empowerment Commission will continue to be implemented. ▶ To scale up the agricultural productivity through mechanization, Government proposes to zero rate all tractors. ▶ To provide relief to the horticulture and floriculture (rose flowers, tea, coffee, banana and citrus fruit trees) sub-sectors, Government proposes to increase the number of years for claiming the 10% development allowance to 5 years from the existing 3 years.

Economic Sector	Sector Policies
Agriculture, Fisheries and Livestock	▶ To revamp the horticulture and floriculture sub – sectors, Government proposes to: • Suspend import duty on biological control agents • Remove import duty on greenhouse plastics • Reduce import duty to 15% from 25% on selected bulb plants and seedlings • Reduce import duty on secateurs and pruners to 5% from the current 15% and 25%, respectively • Remove import duty on selected agricultural clippers; and • Remove export duty on crocodile skin.
Industrialisation	▶ Government is promoting the procurement of locally produced goods. ▶ To enhance market opportunities for the local industry, Government is repealing and replacing the Public Procurement Act No. 12 of 2008. ▶ Construction of Industrial Yards across the country (Chipata, Kasama, Kafue, Kitwe, Mongu, Ndola and Solwezi) has advanced to promote locally owned small enterprises such as carpentry, and foundry. ▶ Government through the Industrial Development Corporation will establish a tomato and fruit processing plant in 2021. ▶ With the coming in of the Africa Continental Free Trade Area in 2021, Zambia will reposition itself to take advantage of the expanded market to the rest of Africa. ▶ Government proposes to: • Introduce a local content allowance for income tax purposes for utilisation of selected local raw materials to encourage local content and value addition. • Reduce the investment threshold for a Zambian citizen to qualify for tax incentives under the Zambia Development Agency Act No. 11 of 2006 to US$100,000 from US$500,000 for those intending to operate in a priority sector, a multi facility economic zone or industrial park. • Reduce import duty to 5% from 25% on selected trimmings to promote the local garments and textile industry.
Tourism	▶ To revive the sector and mitigate against the COVID – 19 pandemic effects, time to pay agreement covering Income Tax and Value Added Tax have been implemented. ▶ Government proposes to: • Reduce corporate income tax rate to 15% from 35% on income earned by hotels and lodges on accommodation and food coaches. • Suspend license of renewal fees paid by hotels and lodges. • Suspend the retention fees paid by tourism enterprises. • Suspend registration fees for hotel managers.
Mining	▶ In order to diversify the mining sector from copper to other minerals particularly gold, Government has established Zambia Gold Company Limited to spearhead gold mining and trading activities in the country.

Economic Sector	Sector Policies
Mining	▶ Government is actively working towards finding a strategic investor to improve operations and production at Konkola Copper Mines. ▶ ZCCM – IH is in discussions with Glencore to acquire additional shares in Mopani Copper Mines. ▶ Government proposes to remove import duty on copper ores and concentrates to encourage local processing.
Energy	▶ To mitigate against the adverse effects of climate change, Government has been investing in additional electricity generation capacity, including solar energy.
Road and Air Transport Infrastructure	▶ The construction of the U$298 million Kazungula Bridge linking Zambia and Botswana which will facilitate increased regional trade and reduce transit time for freight and passengers is due for completion in 2020. ▶ The upgrading of the Kenneth Kaunda International Airport is at 90% while the construction of the Copperbelt International Airport (renamed Simon Mwansa Kapwepwe International Airport) is at 76% and they are both scheduled for opening in 2021.
Social Protection Programmes	▶ To mitigate against the effects of floods experienced by the country in 2020, a total of 90,202 households were supported under the floods and droughts emergency cash transfers in 23 districts while 258,000 households were supported under the COVID – 19 emergency cash transfers across the country. ▶ In 2021, the number of beneficiaries under the traditional social cash transfer programme will be increased from the current 700,000 households to 994,000 households. ▶ The amount per household will be increased to K110 from the current K90 per month. ▶ In 2021, Government will increase the number of beneficiaries under the Food Security Pack Programme to 288,492 vulnerable but viable households from 80,000 in 2020. ▶ Under the Girls Education and Women's Empowerment and Livelihood Programme, the number of beneficiaries will be increased to 208,400 in the medium term from the current number of beneficiaries standing at 129,400.
Education and Skills Development	▶ In order to increase science literacy and promote the next generation of innovators and critical thinkers, Government has established Science, Technology, Engineering, and Mathematics (STEM) schools of excellency in all 10 provinces. ▶ Government intends to roll out Home Grown School Meals Feeding Programme and the Keeping Girls in Schools Initiative to 18 and 22 additional districts, respectively which will improve the provision of equitable services in learning institutions.

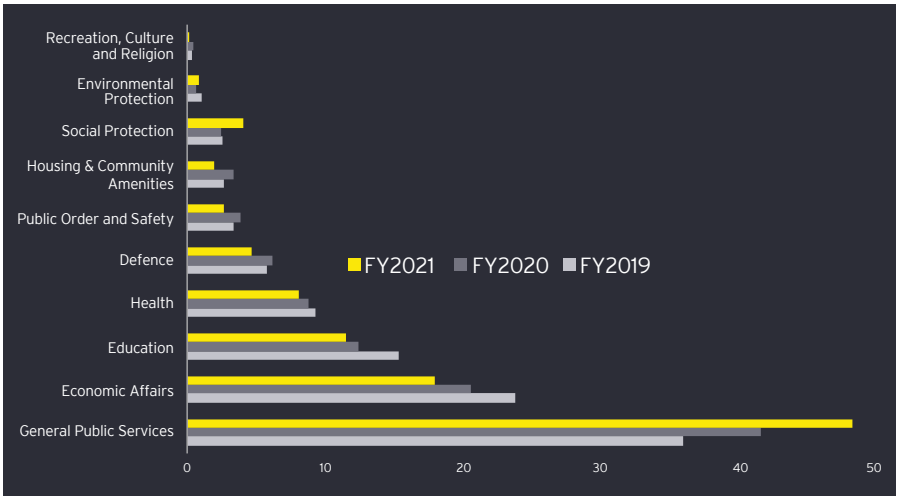
Economic Sector	Sector Policies
Health	▶ In order to reduce the prevalence and impact of communicable diseases, Government has continued to invest in health promotion programmes and made available critical health system inputs. ▶ In 2020, 2,232 health workers were recruited and deployed to strengthen the health care system and make it more resilient. ▶ To increase access to quality health care, 439 health posts out of 650 have been completed and are operational. ▶ 24 mini hospitals out of 108 have been completed. ▶ To strengthen the referral health system, Chinsali and the Kalindawalo General Hospitals as well as the upgraded Levy Mwanawasa University Teaching Hospital have been operationalised. ▶ Other notable projects under construction include the Lusaka Specialist Hospital, surgical wards at the University Teaching Hospital, Bangweulu General Hospital and the expansion and modernisation of Maina Soko Military Hospital. ▶ In order to have sustainable financing to the health sector and ultimately achieve Universal Health Coverage, the National Health Insurance Scheme has been operationalised. To date, 540,000 beneficiaries have been registered on the scheme and 126 health facilities have been accredited.

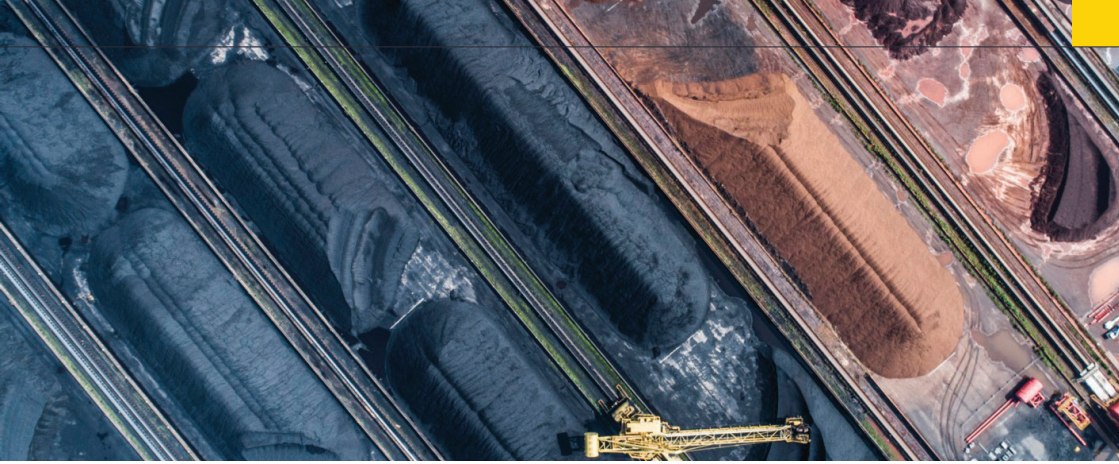
2021 National Budget Summary of Expenditure

In 2021, the Zambian Government proposes to spend a total of K119.6 billion translating to 32.6 % of GDP compared to K.106.0 billion in 2020 which was 32.4 % of GDP.

Tables 1 and 2 provide the overview of the 2021 national budget and compares it to the 2020 and 2019 national budgets. Government proposes to reduce spending in most functions by Government classification including general public functions, social protection, health, education, and environment protection.

The increase in general public spending is on account of increased external and domestic debt servicing obligations, general elections expenses, and gratuity for members of parliament as reflected in increase in proposed expenditure on general public services by functions of government which is 48.3 % as a share of the total budget for 2021. Government also proposes to increase social protection spending to safeguard the livelihoods and protect the vulnerable thus preventing the worsening of poverty levels.





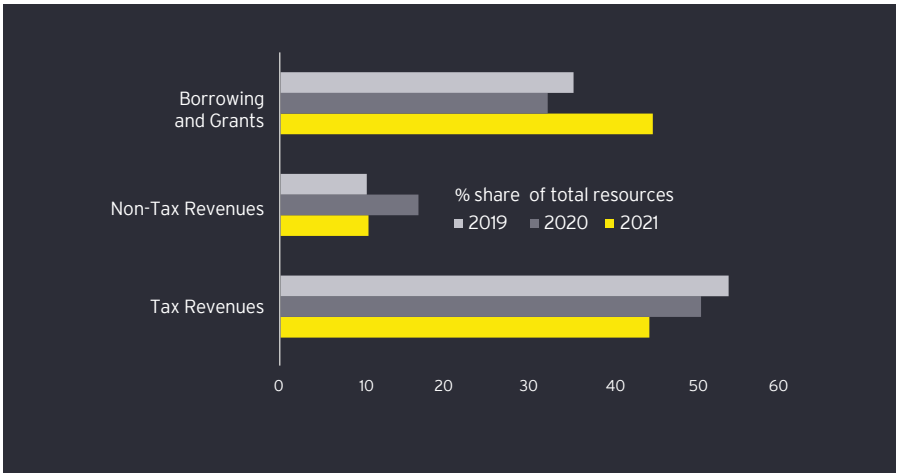
Analysis of Budget Allocations

In 2021, General Public Services will receive a total of K57.8 billion from K44.1 billion in 2020 and K31.2 billion in 2019, representing an increase of 31.2% and 85.2%, respectively.

Out of the total General Public Services allocation of K57.8 billion, K27.8 billion is for external debt servicing, K18.3 billion for domestic debt servicing and K2.76 billion for dismantling domestic arrears representing 47.9%, 31.7% and 4.8%, respectively, of the total functional allocation. K1.164 billion has been provided for the Local Government Equalisation Fund representing two percent of the total functional allocation. The continued allocation for dismantling of domestic arrears is meant to inject the much needed liquidity in the economy for the private sector particularly the Small and Medium Enterprises (SMEs) to spur economic activity particularly in view of the negative effects of the COVID – 19 pandemic on the economy.

Other notable increases in allocation by function include social protection which received an increase of 18.7% in 2020 and in 2021 received a further increase of 84.6% and in absolute terms received K2.19 billion in 2019, K2.6 billion in 2020 and K4.8 billion in 2021, respectively. The increase in social spending by Government is in a bid to protect the vulnerable and the poor and mitigate against the effects of the pandemic.

The Economic Affairs function had a reduction in its allocation to K21.5 billion in 2021 from K21.8 billion in 2020. In 2020, the function had an increase in allocation from K20.65 billion in 2019 translating in an increase of 5.7%. Despite a reduction in the functional allocation in 2021 on account of reduced allocation to road and air transport infrastructure spending, the Farmer Input Support Programme (FISP) received an increase in proposed spending from K1.1 billion in 2020 to K5.7 billion in 2021 reflecting an increase of 418%. The increase in allocation reflects Government desire to grow and support the small scale farmers and possibly enable them graduate into emergent and commercial farmers if inputs are accompanied with targeted intervention measures aimed at improving productivity of the said farmers. Government has also provided for empowerment funds particularly targeted at the youth. This will contribute to increased participation of the youth in productive ventures of the country and grow the economy.



In the health sector, budgetary allocation has been increased by three percent in 2021 to K9.7 billion from K9.37 billion reflecting Government's desire to procure adequate drugs and medical supplies in view of the COVID – 19 health pandemic and to complete the health infrastructure projects aimed at increasing access to quality health care. In absolute terms, the budgetary allocation to the health sector by function classification was increased to K9.37 billion in 2020 from K8.07 billion in 2019.

Sectors such as education and environmental protection received notable increases in budgetary allocation for 2021. Budgetary allocation for education has been proposed to be increased to K13.8 billion from K13.12 billion in 2020 while the environmental protection budget has been proposed to be increased to K955 million from K611.8 million in 2020 representing an increase of 5.2% and 56.3%, respectively. The increase in education by function budgetary allocation is on account of an increase in infrastructure projects spending in the sector. It is hoped that with this allocation, unfinished schools and halls of residences for students in tertiary institutions would be completed to increase school space and student accommodation.

In 2021, Government proposes to offer both tax and non – tax reliefs resulting in reduction in tax and non - tax revenues by 0.9% and by 28.2%, respectively. Comparatively, Government increased tax and non – tax revenue sources by 14.50%, 93.90% and by 14.1% and 14.9% in 2020 and in 2019, respectively. To compensate for the loss in revenue, Government proposes to increase the share of domestic financing in its resource envelope in 2021 to K17.4 billion from K3.46 billion in 2020 by 403%. The reduction in both tax and non – tax revenue sources is on account of various tax incentives offered to the productive sectors and the adjustment of Pay As You Earn bands.

These measures will result in Government experiencing a reduction in tax and non-tax revenue and in turn increase its borrowing from domestic sources in 2021. To the productive sectors and employees, the measures are meant to spur grow for the productive sectors as well as increase disposable income for employees thus resulting in upsurge in consumer spending.

2021 National Budget Tax Proposals

Income Tax proposed changes

Reduce corporate income tax rate to 15 percent from 35 percent on income earned by hotels and lodges on accommodation and food services;

Our comment
The tourism industry has suffered due to the COVID 19 pandemic and the resulting limitation in travel and events. This is a welcome measure by the minister despite the pressure on government to maintain the revenue base and avoid sector specific tax rates. The reduced corporate income tax rates should stimulate further investment in the tourism sector. In the immediate term, this may have a negative impact on the balance sheets of affected businesses if they are loss making and have accrued deferred tax assets at the higher rate of 35 percent. The assets will have to be recalculated at the lower tax rate.

What this means for you:
This measure, together with other measures highlighted elsewhere in this analysis will assist the recovery of the tourism sector. Taxpayers carrying significant deferred tax from assessed losses should carefully review their positions and consider the appropriate disclosures in light of the possible reduction of the assets arising from the rate change.

Amend Section 34A (2) by increasing the period in which development allowances is to be claimed

The amendment increases the period in which the 10% development allowance for horticulture and floriculture sectors is claimable from 3 years to 5 years.

Our comment
Section 34A(1) provides for an allowance of 10 percent per annum for expenditure incurred on the growing of rose flowers, tea, coffee and citrus fruit trees, among others. The Act permits the carry forward of the allowance for a period of three years, if the taxpayer was growing the qualifying plants or trees for the first time. The carry forward period has now been extended to five years.

What this means for you:
The carry forward period of the development allowance, combined with the carry forward period of assessed losses, now provides for a potential ten year period for utilisation of the development allowance. This should assist growers by providing for a longer recoupment period, given the time span involved in the maturity of some plants and trees.

Introduce a Local Content Allowance at the rate of 2% to encourage value addition to products such as Mangoes, Pineapples and Cassava.

Our comment
Mangoes, Pineapples and Cassava are produced in significant quantities locally. However, many drinks manufacturers still import pulp at the expense of value addition to locally produced fruits. This is a commendable measure to encourage investors to encourage local value addition and stimulate demand for locally grown produced fruit.

What this means for you
The restrictions brought by COVID-19 have demonstrated that lengthy and remote supply chains are more vulnerable to disruption. Post pandemic supply chains will need to be regional or local rather than global. In addition, they will have to be focussed on resilience and agility. Local value addition will be critical in realising these objectives and drinks producers can make use of this incentive to minimise the risk of disruption to their supply chain.

Amend the Income Tax Act to clarify that the obligation to furnish information to the Commissioner General extends to information that might be held outside the

Republic or by a person who is not a resident of the Republic.

Our Comments
Section 48 of the Income tax Act provide requires taxpayers to furnish information as required by Commissioner-General, whether relating to their own tax affairs or to any other person as the Commissioner-General may determine necessary. This amendment provides clarity and extends the Commissioners power to information not held in the republic or by persons not resident in the republic. We continue to believe that information request provisions should be legislated within the framework of The Organisation for Economic Co-operation and Development (OECD)'s Inclusive Framework, of which Zambia is a member. This includes Zambia establishing an appropriate framework for exchange of information as noted by the OECD's 2020 peer review report on Country-by-Country Reporting (CbCR). In the absence of these overall frameworks, non residents may not be obliged to provide information as it may breach legal confidentiality and data protection provisions in some instances. Please see further comments in the transfer pricing section on page 29.

What this means for you
The Act imposes significant penalties for failure to provide information to the Commissioner-General. Taxpayers must carefully consider the amendment and seek appropriate legal advice to balance the obligations imposed on them in terms of the Act against any other obligations outside our jurisdiction.

Amend Section 55(4) of the Income Tax Act to provide for the keeping of all books of accounts in Zambian Kwacha and provide exemptions to certain mining companies. Amend Section 55(3) of the Income Tax Act to extend the keeping of books of accounts in United States Dollars to mining companies whose foreign exchange earnings are from within Zambia.

Our comments
Section 55(4) was intended to prohibit taxpayers other than mining companies from maintaining accounting records in foreign currency. However, the wording of the provision currently leaves open the argument that there is no actual prohibition. The proposed amendment therefore makes it clear that all books of accounts must be kept in Zambian Kwacha, save for the specified exemption.

Section 55(3) allows persons carrying out mining operations to keep books of account in United States Dollars if they derive not less than 75 percent of gross income from exports in foreign currency. The Amendment extends the exemption to companies carrying out mining operations but whose qualifying foreign currency earnings are from domestic sales.

What this means for you
The effect of this measure will largely depend on the wording adopted in the proposed amendment. The mandatory requirement could have an impact on taxpayers whose functional currency is other than Zambian Kwacha and have accounting software is implemented accordingly. Affected taxpayers should look out for the draft legislation to ascertain if there will be any impact on the set-up of their accounting software.

Adjust the reference interest rate to be used in the determination of tax applicable on employee loan interest benefits to be the Bank of Zambia policy rate plus a margin of 2%.

Our comments
The Income Tax Act provides for the taxation of interest on staff loans granted at less than market value as a benefit in kind. The reference interest rate for determining market value has previously not been defined. The amendment now requires the use of the Bank of Zambia policy rate plus 2 percent as the reference rate. Any rate below the reference rate will be deemed to give rise to a benefit in kind taxable on the employee.

What this means for you
Employers must review their staff loans policies and employee contracts to ascertain the impact of the amendment.

Amend Section 81B of the Income Tax Act to mandate all statutory regulatory bodies to require a tax clearance certificate and Taxpayer Identification Number. Further, empower the Minister to issue a statutory order to exempt certain categories of membership.

Our Comments
Section 81B requires various institutions and bodies to require tax clearance certificates. This includes the bodies dealing with transfer of property and issue of various licences. This requirement has now been extended to regulatory bodies who will now require tax clearance certificates and Taxpayer Identification Numbers when admitting members and on renewal of membership. This requirement will also apply on issuance of any licence, practicing certificates, permits or similar documents. The Minister is expected to issue statutory orders to exempt certain categories of membership.

What this means for you
Affected taxpayers must ensure that their tax affairs are in order as the period for renewal of most licences approaches in January 2021. The amendment may take affect at this time and may impact affected taxpayers' ability to operate.

Introduce Withholding Tax on payments in respect of royalty financing arrangements.

Our comments
The Minister has proposed an amendment to the Income Tax Act to provide for the charging of Withholding Tax (WHT) on payments made by a Zambian resident to a non-resident in respect of royalty financing arrangements.

Royalty financing is a means by which a business obtains financing and in return guarantees payment of a specified portion of its revenue to the investor. The repayment period can range from a specified period to payment over the life of the project. The investors return is therefore secured on the business' future revenue stream. The payment to the investor cannot be classified as a dividend as no equity and voting rights are issued. On the other hand, the payment is not interest as the investment is treated as an advance, rather than a loan. The proposed amendment will now impose withholding tax on the royalty payments.

What this means for you
The introduction of royalty financing will give rise to payment of withholding tax on the monthly royalty payments made by a Zambian company. Taxpayers will have to evaluate whether it is still advantageous to obtain financing using royalty financing payments as they will now be subject to withholding tax at 20%. We also note that many double taxation agreements that

Introduce Withholding Tax on payments in respect of royalty financing arrangements

Zambia has entered into do not provide for relief for royalty financing payments, unless covered by the profit article. In many instances therefore, tax relief could be more readily available for interest and dividends (return on loans and equity) rather than royalty financing payments.

Insert a subsection in the appropriate place in Section 29 of the Income Tax Act to clarify that the rule limiting the interest deductibility is applicable on aggregate interest expense

Our comments
Section 29 of the Income Tax Act provides for the limitation of the deductibility of interest on loans to 30 percent of the tax earnings before interest, tax, depreciation and amortisation (EBITDA); There has been no clarity as to the nature of the interest that should be included in the calculation. Some taxpayers have argued that only interest arising from loans of a capital nature should be included. The amendment provides clarity that all Interest, irrespective of the nature of the loan is subject to the 30 percent limitation.

What this means for you
Affected taxpayers should review their projected interest expense for tax years commencing in 2021 and consider any impact of the limitation on their tax position.

Other proposed Income Tax changes

Amend section 43D to increase the amount for deduction by the employer for employing a person with disability from K1,000 to K2,000 per annum

Our comments
Section 43D(1) of the Income tax Act provides that for a special deduction of K1000 per year in the hands of the employers in respect of differently abled person who has is employed full time. The Minister proposes to increase the deduction to K2,000 per annum. This is commendable. Beyond this allowance, we are of the view that consideration should be given to a cost based deduction for expenditure incurred on items such as improving access to offices, providing communication aids and transportation. The allowance is meant to assist businesses meet these costs but it is not adequate to provide a meaningful incentive, particularly in the absence of appropriate infrastructure, including differently abled friendly public transportation system.

Reduce the investment threshold for a Zambian citizen to qualify for tax incentives under the Zambia Development Agency Act No.11 of 2006.

Our comments
The Zambia Development Agency Act currently provides threshold of US$500,000 for an investor to qualify for incentives, irrespective of whether or not the investor is a Zambia citizen. In an effort to drive local investment in priority sectors and Multi Facility Economic Zones, the Minister has proposed a reduction of the threshold for Zambian citizens to $100,000. This is a commendable proposal and should increase interest in priority sectors and economic zones among Zambian investors. Current priority sectors are construction & establishment of infrastructure, energy & water development and water supply.

Transfer Pricing

Amend the Transfer Pricing Regulations to provide for the exchange of Country-by-Country Reporting (CbCR).

Our comments
This amendment will enable the automatic exchange of CbC reports with other tax jurisdictions for members of Multinational Enterprise (MNE) groups operating in Zambia, and in doing so provide for further transparency in the operations of MNEs.

The CbC Report is one of the requirements under the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) Action 13 and aims to improve transparency in the operations of MNE's by providing information to the revenue authority on the group's allocation of income, taxes and business activities on a tax jurisdiction by tax jurisdiction basis. This amendment will enable the ZRA to carry out more efficient transfer pricing assessments on transactions between related parties, as well as more robust transfer pricing audits. However, we note that there is still no requirement for local entities to prepare or submit CbC reports. As such, the amendment is a continuation of what has so far been piecemeal legislative changes to implement the BEPS agenda.

In its recently released Inclusive Framework Peer Review Report Phase 3, the OECD noted that Zambia had lagged behind in implementing CbC Reporting. The Report also indicated that Zambia had not taken steps to ensure that the "appropriate use condition" is met ahead of the first exchange of information agreements under Action 13. The ability of a jurisdiction to obtain and use CbC reports is conditional upon it using CbCR information appropriately. In this re-

Amend the Transfer Pricing Regulations to provide for the exchange of Country-by-Country Reporting (CbCR).

spect, appropriate use is restricted to;

- high level transfer pricing risk assessment,
- assessment of other BEPS related risks and
- economic and statistical analysis, where appropriate.

In the absence of an appropriate legislative framework, including steps being taken by the government to ensure appropriate use, taxpayers in other jurisdictions may be precluded from providing CbCR information to the Zambian tax authorities. This may then create conflicting obligations that could be detrimental to taxpayers. As such, it is critical that the government embarks on a full implementation of BEPS Action 13 as recommended by the OECD.

What this means for you.
Given the lack of steps in implementing the appropriate use condition and other related provisions, taxpayers must evaluate their positions carefully and seek legal advice with respect to requests for the provision of CbCR information. Taxpayers must also consider their positions where they become aware that CbCR information has been exchanged with respect to their operations.

Amend the Transfer Pricing Regulations to increase the threshold to K50 million from K20 million for local companies which are not required to provide transfer pricing documentation.

Our comments
This amendment extends the exemption, particularly for small to medium sized businesses that have an annual turnover of K50 million, from providing transfer pricing documentation. The current Transfer Pricing legislation and regulations require local taxpayers that have an annual turnover K20 million and above to prepare local transfer pricing documentation contemporaneously. This places a considerable administrative burden on small to medium sized businesses. It is unclear whether this exemption will apply to other transfer pricing matters such as Transfer Pricing Audits.

What this means for you
Local related taxpayers that earn an unconsolidated annual turnover that is below the K50 million threshold will no longer be required to prepare Transfer Pricing documentation. However, the ZRA will still require taxpayers to comply with the Transfer Pricing regulations. Therefore, taxpayers will still need to ensure that all related party transactions are undertaken at arm's length and to keep contemporaneous documentation as relates to the related party transactions.

Amend the definition of "reference price" in Section 97A (1) of the Income Tax Act. The deletion of words 'Metal Bulletin' and replacement with the words 'FastMarkets MB' wherever it appears and insertion of the terms 'or its successor or successor name' in the appropriate places.

Our comments
This is a change in terminology following the rebranding of Metal Bulletin to FastMarkets MB. Accordingly, the Metal Bulletin should therefore be replaced with FastMarkets MB wherever it appears.

Property Transfer Tax proposed changes

Amendment of section 5(2A) of the Property Transfer Tax Act by redefining the means of determining the realised value on the indirect transfer of shares. This is in order to capture only the Zambia proportion of the value of the consideration or the nominal value.

Our comments
In the 2019 Income Tax Amendment Act, the basis of determination the realised value of an indirect share transfer was extended to include the proceeds of the transaction and the nominal value, in addition to valuation based calculations. However, due to an evident drafting error, the amendment had the effect of taxing the proceeds of the worldwide transaction or the nominal value of the globally acquired entity rather than the portion attributable to the Zambian entity. The proposed amendment is welcome as it seeks to correct the drafting error and clarify that the alternative methods are to be based on;

- the proportion of the consideration for the transferred shares that relates to the value of the Zambian company; and
- the proportion of the nominal value of the transferred shares that relates to the value of the Zambian company.

However, given the implication of the error on the tax valuations of transfers made until the proposed amendment is passed, we would recommend that the minister makes the amendment retrospective to avoid unintended tax liabilities.

What this means for you
Given the drafting error, taxpayers are advised to continue seeking binding private rulings on the valuation of shares subject to indirect transfer until the amendment comes into effect. This is despite the obvious intention of the legislators to only tax the Zambian portion of the transactions.

Amend the Transfer Pricing Regulations to increase the threshold to K50 million from K20 million for local companies which are not required to provide transfer pricing documentation.

Our comments
This amendment extends the exemption, particularly for small to medium sized businesses that have an annual turnover of K50 million, from providing transfer pricing documentation.

The current Transfer Pricing legislation and regulations require local taxpayers that have an annual turnover K20 million and above to prepare local transfer pricing documentation contemporaneously. This places a considerable administrative burden on small to medium sized businesses. It is unclear whether this exemption will apply to other transfer pricing matters such as Transfer Pricing Audits.

What this means for you
Local related taxpayers that earn an unconsolidated annual turnover that is below the K50 million threshold will no longer be required to prepare Transfer Pricing documentation. However, the ZRA will still require taxpayers to comply with the Transfer Pricing regulations. Therefore, taxpayers will still need to ensure that all related party transactions are undertaken at arm's length and to keep contemporaneous documentation as relates to the related party transactions.

Amend the Property Transfer Tax Act to clarify that only Trusts that are approved as Public Benefit Organisations (PBO) are exempt from Property Transfer Tax.

Our comments
This housekeeping measure functions to align the PTT Act with the provisions of the Income Tax Act on exemptions. The proposed amendment seeks to clarify that exemption from PTT will only apply to Trusts that are approved Public Benefit Organisations (PBO).

What this means for you.
Taxpayers are encouraged to ensure that their trusts are appropriately approved PBOs. We note that many trusts, including educations institutions operating as trusts do not have approved PBO status and would therefore incur PPT on the transfer of assets including fixed property.

Amend the Property Transfer Tax Act to prescribe the exchange rate applicable to foreign currency denominated transactions.

Our comments
The exchange rate used In foreign currency denominated transactions could have significant impact on the realizable value of assets. The Minister has now proposed a standard rate for translating the transactions. This is commendable as it will reduce the scope for disagreements on the local currency equivalents of the valuations.

What this means for you
Taxpayers will need to note the specific rates prescribed by the PTT Act when concluding transactions. Unless otherwise specified in the proposed legislation, we expect the rate to be the applicable rate on the effective date of the transaction.

VALUE ADDED TAX proposed changes

Zero rate all tractors irrespective of Horsepower

Our comments
As part of the continuing efforts to encourage economic diversity, particularly by scaling up agricultural productivity, the government has proposed to zero-rate all tractors. Currently, only tractors of up to 90 Horsepower are zero rated and this was targeted at smaller scale farmers as larger farmers tend to use more powerful equipment. This measure will result in a significant saving on the cost of the equipment as most farming enterprises are exempt and cannot recover the VAT incurred.

What this means for you
Tractors are specifically defined and have appropriate customs codes. As such, buyers, particularly farmers should evaluate their equipment purchases carefully and where a tractor can fulfil the operating requirements of other equipment with less favourable equipment, it may be more advisable to purchase a tractor.

Zero rate full body sanitization equipment

Our comments

The proposed zero-rating of equipment used for full body sanitization for one year reflects a furtherance in government's response to the COVID-19 pandemic. As part of its initial response to the pandemic, the government had increased the number of zero-rated medical-related items in 2020. This includes alcohol solution and hand sanitizers. The proposed measure extends the VAT zero-rating to full body sanitization equipment. Given the urgency in combatting the pandemic, the measure is set to be effective 26th September 2020.

Amendment of Section 11(1) of the Value Added Tax Act

Our comments

As part of its housekeeping measures, the government has proposed to amend Section 11(1) of the VAT Act to provide clarity on the definition of place of supply. Currently, the Act provides that goods are regarded as being supplied in Zambia if:

a. they are exported from Zambia or if their supply does not involve their removal from or to Zambia.
b. their supply involves their installation or assembly at a place in Zambia to which they are removed; and
c. their supply involves their installation or assembly at a place outside Zambia to which they are removed.

No clarity has been provided on the nature of the proposed amendment. However, we note that the determination of the extent of work that constitutes assembly or installation is subjective and may be a matter of dispute. The lack of clarity may work to the taxpayers' disadvantage as the Act allows the Commissioner-General to determine the place of supply where the place of supply is doubtful.

Amendment of Section 19(1A) of the Value Added Tax Act

Our comments
The requirement for suppliers to have an electronic payment machine as a point of sale was introduced in the Vat Amendment Act of 2019. This was part of wider measures to reduce cash transactions and enhance tax compliance. However, the provision only required the supplier to have the machine and did not require its use. As such, a supplier could install a machine and not use it. The Minister has proposed to amend the provision and clarify that the electronic payment machine should be available for use by a customer that wants to pay using this option. The Minister also proposes imposing a penalty for failure to comply. This should lead to better tax compliance as electronic payment machines have a better audit trail compared to cash transactions. It should also reduce exposure to customers and supplier staff from handling cash in the wake of the COVID-19 pandemic.

What this means for you
Taxable suppliers must ensure that electronic payment machines are not only installed but also available for use. The ZRA has intensified inspections in this regard and non-complaint taxpayers will be subject to significant penalties.

Amendment of Section 21(6) of the Value Added Tax Act

Our comments
Section 21(6) establishes the period beyond which the Commissioner-General can assess a return for incorrectness or inadequacy. The Act provides that the Commissioner-General may not raise an assessment more than two years after he or she has had reason to believe that a return was incorrect or inadequate.

Establishing at which point the Commissioner- General should have been aware of an error or inadequacy has been contentious given its subjective nature. The Minister now proposes to clarify when the two year period will commence. Whilst we are yet to view the proposed new wording, the proposal is a welcome move as it would provide for better tax administration and transparency in the application of the two year period.

Amendment of section 43 of the Value Added Tax Act

Our comments
The government proposes to amend section 43 of the VAT Act to introduce an escalatory fine mechanism for the filing of false returns and statements.

Currently, section 43 of the Act imposes a fine of up to 20 000 (ZMW6 000) penalty units or imprisonment or both for anyone who files a false return or makes a false statement. This proposed measure introduces an escalatory penalty regime for a first, second, third and subsequent occurrence of the offence with a penalty being imposed per period audited. This proposed measure is indicative of the government's desire to use stiffer penalties as a deterrent for false returns.

Amendment of section 44(2) of the Value Added Tax Act

Our comments
The government proposes to amend section 44(2) of the VAT Act to increase the penalty for tax evasion in respect of the supply and importation of goods and services. The penalty is increased from 30,000 to 300,000 penalty units (ZMW9,000 to ZMW90, 000).

What this means for you
As with customs offences, it is likely that audits related to importation of goods will be conducted post-importation. As such, it is imperative for taxpayers to have adequate controls over the work performed by their customs agents and the resulting declarations.

Customs and Excise proposed changes

Reduce or suspend import duty on various agricultural equipment and chemicals (biological control agents);

Our comments
The minister proposes to reduce customs duty on various agricultural equipment including secateurs, pruners and clippers that currently have customs duty rates between 5% and 25%. The proposed rates are 5% for items currently subject to duty of 15% and 25% whereas items currently subject to duty of 5% will be reduced to 0%. The Minister also proposes to suspend the current duty of 5% on biological control agents and remove 15% import duty on greenhouse plastics of HS Code heading 3921.

Reduce customs duty on Exfoliated Vermiculite of HS 6806.20.00 to 0 % from 5% and Amaryllis Bulb plant of HS 0601.20.00 to 0% from 25%.	**Our comments** The measure seeks to align treatment of Amaryllis bulb to similar imported products such as rose flower seedlings.
Remove export duty on crocodile skin.	**Our comments** The proposed amendment is a revenue concession measure by the Government by way of encouraging export of crocodile sector. The export of crocodile skins is linked to high end fashion items and these have been significantly impacted by reduced demand due to the COVID-19 pandemic. The export duty has had an impact on the competitiveness of the crocodile skins exported from Zambia.
Remove 5% customs duty on copper ores and concentrates of HS Code heading 2603.	**Our comments** In 2018 a 5% customs duty on imported copper and cobalt concentrates was introduced. This mainly affected concentrates imported from Congo. The import duty has had an adverse impact on local refining capacity as refineries in Zambia were operating below capacity and required concentrate from Congo to maintain capacity. The permanent removal of the duty that was suspended in April as part of the Ministers COVID-19 measure is therefore welcome.
Suspend 15% import duty on importation of refrigerated trucks of HS code 8704 to support the domestic and export markets;	**Our comments** The suspension of import duty on refrigerated trucks is a measure to support the local cold chain industry. The common challenge to export of fresh food produce is often the non-availability of cold storage and transportation facilities leading to wastage of produce or compromise in quality by the time the produce reaches markets. This measure is welcome as it will assist in strengthening the fresh produce supply chain process.

Reduce import duty to 5% from 25% on selected trimmings to promote the local garments and textile industry; and

Our comments
The Zambian textile and garment production industry remains challenged in the face of cheaper imports from high volume countries. The proposed measure is aimed at improving the competitiveness of the sectors by reducing duty on trimmings required for textiles and garments.

Reduce Customs duty to 15% from 30% on electric motor vehicles of HS 8703.80.90 to reduce the use of fossil fuel.

Our comments
With the aim of reducing of fossil fuel and encouraging use of electric motor vehicles, the minister has proposed the reduction in the import duty on electric motor vehicles to 15% from 30%. However, the wide scale use of electrical cars will remain a challenge in the absence of reliable supply of electricity and charging infrastructure. Further incentives are required to stimulate the roll out of related charging infrastructure given the long distances involved in travel within Zambia.

Increase import duty to 40 percent from 25 percent on agro products such as beef and beef processed products, pork and pork processed products, chicken and chicken processed products as well as fish imported from outside the SADC and COMESA regions

Our comments
The Minister has proposed the increase of import duty on agro products imported from outside SADC and COMESA from 25% to 40% to support local production. The impact of this measure will be limited as most agro products are imported within the SADC region were they are subject reduced rates under the SADC protocol. The imposition of the duty might instead incentivise increased importation from the SADC region to the further detriment of local producers.

Introduce excise duty at the rate of K1.50 per litre on reconstituted milk;

Our comments
Introduction of excise on reconstituted milk sets it apart as a luxury good. The measure is intended to promote the local dairy sector.

Adjust the specific excise duty rate on cigarettes to K302 per mille from K265;

Our comments
This is a revenue raising as well as health measure to reduce the consumption of cigarettes. However, the increase in duty should be balanced against the risk that higher taxes tend to encourage illicit importation and trade in cigarettes.

Introduce a surtax at the rate of 20 percent on imported un-denatured ethyl alcohol of an alcoholic volume strength of 80 percent or higher;

Our comments
In 2018 there was an increase of excise duty from 0% to 125% of items under heading 2207. Other than customs duty, excise and import VAT, imported un-denatured ethyl alcohol will now have an additional tax of surtax at 20%.

Introduce excise duty on plastic flat bags at the rate of 30 percent;

Our comments
In 2019 there was an increase of excise duty to 30% on carrier bags. The proposed amendment extends this provision to flat bags and is aimed at encouraging the use of biodegradable materials for packaging. As we have indicated in the past, we remain concerned that no separate fund has been established to track the collection and use of environmentally related duties and surtaxes.

House Keeping Measures

Introduce a definition for High value motor vehicles in Section 2 of the CE Act.

Our comments
Currently the Act does not distinguish between high value and used motor vehicles. As a result, used motor vehicles are subject to customs duty that is based on the age rather than the value of the car. A high value and exotic car, such as a Bugatti Veyron may therefore be imported cheaper than a new budget car. The Minister proposes to correct this anomaly by prescribing a separate definition and likely higher duty regime for high value cars.

Amend Section 77(9) of the CE Act by extending the validity period of a Carbon Emission Certificate from 90 days to 1 year for motor vehicles in transit or imported temporarily.

Our comments
Currently the Act provides for carbon emission certificate to be issued in respect of a motor vehicle in transit or imported on temporary basis, the certificate shall be valid for ninety days from the date it is issued. The certificates will now be valid for one year.

Amend Section 77(5)(d) of the CE Act to specify the category of vehicles subject to payment of Carbon Emission Surtax annually.

Our comments
Currently the Act does not provide for the category of vehicles subject to pay Surtax. The proposed changes, will provide clarity on vehicles subject to Surtax.

Amend Section 139A of the CE Act to provide for a credit mechanism for an intermediary to deduct the excise duty paid on airtime and in turn charge excise duty to the end user.

Our comments
Currently the Act does not provide for a credit mechanism for an intermediary to deduct the excise duty paid on airtime and in turn charge excise duty to the end user. The lack of a credit mechanism may lead to double taxation. The proposed tax credit for to intermediaries will eliminate double taxation. However, it remains to be seen how this measure will be enacted as there is a risk that it may disadvantage small scale airtime traders who may not have the mechanism to apply the tax credit.

Amend Section 84C of the CE Act to limit advance tariff ruling to goods that are foreseen to be imported or exported.

Our comments
Currently the Act does not clarify when the advance tariff ruling can be made to the Commissioner-General. The advance tariff ruling can only be presented to the Commissioner General when anticipating an import or export.

Amend Section 87 of the CE Act to provide for the assessment and collection of duty in convertible currencies as prescribed by the Commissioner General.

Our comments
Currently, for assessing the value for duty purposes , the foreign currency invoice amount is converted into an equivalent amount in Zambian currency based on the BOZ bank rate. The proposed change will allow for assessment and collection of duty in foreign currency. The proposed change will allow the ZRA to assess and collect duties in foreign currency without converting to equivalent amount in Zambian Kwacha.

Amend Regulations 80(c) and 86 of the CE (General) Regulations to increase the value of goods to US$2,000 from US$1,000 on which a remission of duty shall be granted.

Our comments
Currently travellers arriving at ports of entry are allowed to import goods up to the value of US$1,000. This has now been increased to US$2,000 if imported under the codes below:

- 80.Remission or rebate of duty on Petty consignments
- 81. Refund or remission of duty on goods for diplomatic personnel
- 82. Remission of duty on goods imported temporarily by visitors and tourists
- 83. Remission of duty on motor vehicles imported by visitors and tourists
- 84. Remission of duty on commercial traveller's samples
- 85. Remission of duty on new residents' effects
- 85A. Remission of duty on deceased person's effects.
- 86. Remission of duty on traveler's effects.

The Minister has proposed an increase in the exempt threshold for PAYE from K3,300 to K4,000 per month.

Pay-As-You-Earn proposed changes

Current Regime		Proposed Regime	
Income Band	Tax Rate	Income Band	Tax Rate
0 - K3,300 per month	0%	0 - K4,000 per month	0%
K3,301 - K4,100 per month	25%	K4,001 - K4,800 per month	25%
K4,101 - K6,200 per month	30%	K4,801 - K6,900 per month	30%
Above K6,200	37.50%	Above K6,900	37.50%

The Minister has proposed an increase in the exempt threshold for PAYE from K3,300 to K4,000 per month.

Our comments
The increase in the exempt threshold is a measure intended to give relief to the low wage earners, basically increasing the net income of the employee. We have noted in the past that the PAYE thresholds have largely remained unchanged or have been adjusted below inflation., resulting in the erosion of disposable income. The proposed changes will help in preserving the disposable income of individual taxpayers.

The Minister has proposed an increase in tax credit for differently abled individuals from K250 to K500

Our comments
Part I of the charging schedule provides for an annual tax credit to differently abled individuals. We would urge the Minister to consider a higher increase to the credit as the proposed amount still remains inadequate in the absence of a comprehensive support system for differently abled persons.

Non-Tax Revenue Measures

Increase various immigration permit fees to cost recovery levels whilst remaining competitive

Our comments
Although not specifying the proposed increase margin, this proposed change signifies expected changes in immigration permit fees. The cost of bringing in foreign experts by entities will likely increase.

What this means for you:
This means that the current permit fees will be revised in accordance with cost recovery levels. As such, there is an expected increased cost of business for entities that will be bringing in expatriate workers.

Proposed Change: Removal of the discount granted to the public on payment for online registration of a private company limited by shares and the filing of annual returns to PACRA.

Our comments
Currently, considering the COVID-19 pandemic and with an aim of encouraging online usage, the authority provided a discount on fees paid for registration of a private company limited by shares and the filing of annual returns. It is not clear if the removal of the discount is an indication that this objective has been achieved.

EY Zambia Offices

Lusaka
EY Place Plot 354437 Alick Nkhata Road
P.O. Box 35483
Tel: +260 211 378 300 | Fax: +260 211 378 302

Kitwe
2nd Floor Mudzi House
Plot No. 189, Cnr President Avenue and Kantanta Street,
P.O. Box 21375,
Kitwe, Zambia
Tel: +260 212 231 866/67 | Fax: +260 212 231868

Email: info@zm.ey.com

EY | Assurance | Tax | Transactions Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all our stakeholders. In so doing, we play a criticle role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organisation, and may refer to one or more, of member firms of Ernst & Young Global Limited, each of which is a separate legal entity.

Ernst & Young Global Limited, a UK company Limited by guarantee, does no provide services to clients. For more information about our organisation, please visit ey.com

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com