2012 BUDGET OVERVIEW OF TAX CHANGES

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INTRODUCTION

I am pleased to present an overview of the changes in the tax legislation and other relevant information as announced by the Minister of Finance and National Planning in his annual National Budget Address for the fiscal year 1st January 2012 to 31st December 2012 presented to the National Assembly on 11th November 2011.

The overview provides a guide on the measures announced in the Budget as reflected in the various Acts, Statutory Instruments and Commissioner General's Rules. However, it is worth noting that some measures in this pamphlet are subject to Parliamentary approval.

May I also recommend visiting the ZRA website, which includes all the information enclosed in this pamphlet and other useful tax details: www.zra.org.zm

Berlin Msiska
Commissioner General

1.0 DIRECT TAXES

1.1 CONCESSIONS

1.1.1 Adjust the Pay-As-You-Earn (PAYE) regime by increasing the tax free income threshold for individuals from K1,000,000 per month to K2,000,000 per month. The spreads have also been from adjusted from K735,000 to K800,000 for the income bracket taxed at 25 percent and from K2,465,000 to K2,900,000 for the income bracket taxed at 30 percent.

Current regime		Proposed regime	
Monthly Income Bands	**Rate %**	**Monthly Income Bands**	**Rate %**
0 – K1000,000	0	0 – K2000,000	0
K1000,001 - K1,735,000	25	K2,000,001 – K2,800,000	25
K1,735,001 – K4,200,000	30	K2,800,001 – K5,700,000	30
Above K4,200,000	35	Above K5,700,000	35

This measure is meant to give relief to all workers especially those on low income in line with Government's policy of putting more money in people's pockets.

1.1.2 Revise the corporate tax rate for banks and tax all income earned by banks at 35 percent.

This measure is intended to reduce the tax burden in the banking sector so as to encourage banks to cut down on the high interest rates which contribute to the high cost of doing business in the economy.

1.1.3 Reduce the corporate income tax rate applicable to the agriculture sector from 15 to 10 percent.

This measure is intended to encourage higher productivity in the Agricultural Sector through the creation of an environment that will encourage rapid investment in the sector.

1.2 COMPENSATING MEASURES

1.2.1 Treat all hedging activities as separate activities for income tax purposes

The measure is intended to disallow hedging losses to be treated as part of business activity and therefore become deductible when ascertaining the gains or the profit of the business for the charge year. This will also divest Government from sharing the risks arising from hedging, which only the business knows.

Hedging is a legitimate business strategy that businesses may use to mitigate the risks from fluctuations in prices, interest rates and exchange rates.

1.2.2 Increase the mineral royalty rate from 3 percent and 5 percent for base metals, industrial and energy minerals and precious metals and gemstones respectively to 6 percent.

The measure is intended to generate additional revenues for the Government for sustainable development.

1.2.3 Amend section 18 of the Income Tax Act to deem commission payments made to non-residents as having a source within Zambia and therefore taxable at the rate of 15 percent.

The measure is intended to align the treatment of commission payments to non-residents with that of other income streams such as royalties, interest and management or consultancy fees.

Currently, income deemed to have a source within Zambia is taxable within the Republic in accordance with the source rule. All commission payments including interest, royalties, and management or consultancy fees made to residents are taxable at the rate of 15 percent under the withholding tax system. However, commission payments to non-residents that are not deemed to have a source in Zambia are not liable for tax and it shall be the final tax.

1.3 HOUSEKEEPING MEASURES

1.3.1 Introduce a new penalty regime under the Turnover Tax System for submission of incorrect returns

The measure is intended to introduce penalties that are proportionate and equitable for the Turnover Tax System as follows: 1.5 percent, 3 percent and 4.5 percent, for negligence, wilful default and fraud, respectively instead of the current 17.5 percent, 35 percent and 52.5 percent for negligence, wilful default and fraud, respectively which have proven to be disproportionately high and have proved to be uncollectable.

1.3.2 Amend the definition of charge year under the Income Tax Act to mean the period from 1st January to 31 December instead of a period of twelve months ending 31st March of the succeeding year.

The measure is intended to align the accounting year, for income tax purposes, to the Government fiscal year which now runs from 1st January to 31st December.

1.3.3 Amend Section 30A (1) of the Income Tax Act so as to remove reference to the repealed Mines and Minerals Act of 1995.

The measure is intended to eliminate a referencing error in Section 30A (1) of the Income Tax Act which erroneously refers to section 23 of the repealed Mines and Minerals Act of 1995, instead of Section 55 (3) of the Income Act.

Currently, mining companies that receive more than 75 percent of their income in foreign currency are allowed to keep books of accounts in United States Dollars as provided for under Section 55 of the Income Tax Act. Any losses that may arise due to keeping of books of accounts in United States Dollars are indexed in accordance with a formula provided under Section 30A (1) of the Income Tax Act.

1.3.4 Amend Section 33 (2) in order to align it with the above proposed amendment of Section 30A (1).

The measure is intended to bring Section 33 (2) in line with the proposed amendment of Section 30A (1) of the Income Tax Act. The measure is further intended to correct a referencing error whereby the section makes reference to the Section 23 of the repealed Mines and Minerals Act of 1995 instead of Section 55 (3) of the Income Tax Act.

1.3.5 Amend Section 45 B (1) that currently provides for the Registrar of Patents and Companies Registration Agency (PACRA) (formerly PACRO) to require any person that is registering a company or business name to furnish PACRA with a Taxpayers Identification Number (TPIN) before such a company or name is registered

The measure is intended to correct an anomaly created by this section because a company should first be registered with PACRA before it can be given a TPIN by ZRA upon application.

1.3.6 Amend section 46 (3) to change the date for submitting income tax returns to 30th June from 30th September.

The amendment is intended to align the date for submitting final returns to the current fiscal/budget year, that is, 1st January to 31st December.

Currently, all taxpayers, other than those earning only employment income are required to file returns with the Commissioner-General not later than 30th September following the end of any charge year.

1.3.7 Amend section 46A (3) to change the date for submitting returns for provisional income and tax to 31st March from 30th June.

The amendment is intended to align the date for submitting provisional returns to the proposed measure to change the charge year.

Currently, all taxpayers, other than those earning only employment incomes only, are required to file returns for provisional income tax with the Commissioner-General not later than 30th June of the charge year to which such returns relate.

1.3.8 Amend section 62 (3A) for the Commissioner-General to accept business accounts prepared on a date other than 31st December.

The amendment is intended to align the provisions of section 62 (3A) to the proposed measure to align the charge year, for income tax purposes, to the fiscal calendar.

Currently, the law under section 62 (3A) allows the Commissioner-General to accept accounts prepared on a date other than 31st March within an accounting period.

1.3.9 Amend Section 77 (1C) to adjust the due dates for provisional taxes.

The measure is intended to align the charge year, for income tax purposes, to the Government fiscal year as shown in the tables below:

Table 1: Current Charge Year

Due Date	Current
1^{st} Instalment	30^{th} June
2^{nd} Instalment	30^{th} September
3^{rd} Instalment	31^{th} December
4^{th} Instalment	30^{th} March

Table 2: Charge Year ending 31st December 2012

Due Date	Current
1st Instalment	30th June
2nd Instalment	30th September
3rd Instalment	31th December

Table3: Charge Year ending 31 December 2013 and subsequent Charge Years

Due Date	Current
1st Instalment	31th March
2nd Instalment	30th June
3rd Instalment	30th September
4th Instalment	30th December

2.0 VALUE ADDED TAX

2.1 COMPENSATING MEASURES

2.1.1 Remove copper and cobalt ores and concentrates from the Import VAT Deferment Scheme

In 2009 copper and cobalt ores and concentrates were included on the Import VAT Deferment Scheme to promote the inflow of toll treatment business in the mining industry following a decline in the country's mineral production levels thereby creating excess smelting capacity. However, the purpose for which the deferment was intended has been overtaken by the current local production levels.

Therefore, this measure is intended to remove copper and cobalt ores and concentrates from the import VAT Deferment Scheme following an increase in the supply of local copper and cobalt ores and concentrates for toll treatment within the country.

2.2 HOUSEKEEPING MEASURES

2.2.1 Amend Section 2 of the VAT Act to provide for the new accounting year for VAT purposes.

The measure seeks to align the accounting year for VAT to the fiscal year for Government, which is 1st January to 31st December. Currently, the VAT accounting year runs from 1st July to 30th June.

2.2.2 Amend the First Schedule to the VAT Act to exempt transportation of persons by road.

The amendment is intended to re-instate the omitted item on the exemption of transportation services.

Transportation of persons by road in a bus or coach, licensed under the Roads and Road Traffic Act, having a seating capacity for fourteen or more adult persons is exempt but this was omitted from the Exemption Schedule.

2.2.3 Exempt post-secondary educational services from VAT

The amendment is intended to correct an error of omission whereby education services provided to post-secondary students which is an exempt item, was inadvertently omitted from the First Schedule of the VAT Act.

3.0 CUSTOMS AND EXCISE

3.1 CONCESSIONS

3.1.1 Remove the 5 percent customs duty on helicopters and micro-lights for use in the tourism sector

The measure is intended to align customs duty rates of helicopters and micro-lights with those of other light passenger aircrafts to promote the tourism industry.

3.1.2 Increase the threshold for travellers' personal effects that are eligible for duty free from US$500 to US$1000.

This measure is intended to provide relief and convenience to travellers coming in with personal effects.

3.2 COMPENSATING MEASURES

3.2.1 Reduce the export duty applicable on copper and cobalt concentrates from 15 to 10 percent and extend the duty to cover all unprocessed or semi-processed minerals.

The measure is intended to make export duty non-discriminatory by extending it to all unprocessed or semi-processed minerals and less onerous to producers of copper and cobalt producers by reducing the rate. The extension of export duty to other minerals (other than copper and cobalt) is intended to encourage local processing and value addition.

3.2.2 Correction of disparities in the Spirits and Wine Industry by reducing duty rates and changing the valuation base for duty purposes.

The measure is intended to lower duty rates on wines and spirits to competitive levels relative to rates obtaining in the SADC Region. In addition, changing the valuation base from value of input cost to value of sales will no longer disadvantage investors who produce the products locally.

3.3 HOUSEKEEPING MEASURES

3.3.1 Revoke the Customs and Excise (Suspension) (Medicaments, Agricultural Machinery and Equipment) Regulations 1999, Statutory Instrument No.17 of 1999 that suspended duty on agricultural tractors and amend the customs duty rate on the tariff code for these goods (i.e. HS code 8701.90.10) to free.

Customs duty on agricultural tractors is currently at 5 percent. However, this duty rate was suspended from through SI 17 of 1999 so that agricultural tractors are not charged any duty at importation. This measure is intended to harmonise the duty rate on tractors so that agriculture tractors are duty free like those already at the tariff rate of zero.

3.3.2 Harmonise and update the Harmonised Commodity Description and Coding System (HS) with the World Customs Organisation (WCO) 2012 Version

The proposed changes to the 2007 HS code have been necessitated by the need for the Food and Agriculture Organisation to start monitoring trade in agricultural products for food security purposes. The changes are also important in order to introduce codes for newly invented products such as LED, LCD and Biofuel etc. which are currently being classified under the code for “other”.

Finally, the HS Coding is normally updated by the World Customs Organisation every five years to take into consideration the changes in the pattern of trade and technological advancement. Zambia is currently using the 2007 HS code.

The measure will align the HS coding that Zambia is currently using with the WCO 2012 HS Code Version.

3.3.3 Revise the Public Benefit Organisation regulations to streamline and simplify the approval process

The current procedure for the approval of organisations as Public Benefit Organisations (PBOs) for Customs Duty purposes under regulation 88A of the Customs and Excise (General) Regulations 2000 and the actual accessing of incentives is burdensome.

This measure is intended to simplify the approval processes and the granting of incentives to deserving Public Benefit Organisations.

4.0 OTHER MEASURES

4.1 Remove the provision to grant additional incentives under Section 58 of the Zambia Development Agency Act for investments worth more than US$ 10 million.

This measure is intended to make the provision of tax incentives more transparent by removing the use of discretionary powers when granting extra incentives. This will also prevent further leakages in the tax system and will strengthen the quest for domestic resource mobilisation