# TAX COMPLIANCE GUIDE FOR FOREIGN INVESTORS ZAMBIA







This guide has been produced under the framework of the Partnership for Investment and Growth in Africa (PIGA) project with the purpose of facilitating foreign investors on complying with taxes in Zambia.

PIGA is part of Manufacturing Africa, a flagship programme of the United Kingdom of Great Britain and Northern Ireland's Department for International Development (DFID) facilitating foreign direct investment with high development impact into selected African countries.

Under Manufacturing Africa, PIGA aims to contribute to job creation and sustainable growth in Ethiopia, Kenya, Mozambique and Zambia by supporting these countries to attract foreign direct investment, specifically Chinese investment, in the agro-processing and light manufacturing sectors. PIGA is also designed to enhance the capacity of these countries for effective investment promotion.

PIGA is implemented by the International Trade Centre (ITC) in cooperation with the China Council for the Promotion of International Trade (CCPIT) and the China–Africa Development Fund (CADFund).

### ACKNOWLEDGEMENTS

The International Trade Centre (ITC) expresses its gratitude to KPMG Zambia Limited for the development of this tax compliance guide for foreign investors in Zambia. ITC also acknowledges the contributions of national and international consultants and coordinators involved in the development of the guide including T.C.A Ranganathan for the technical inputs, Shupi Mweene for the coordination, Vanessa Finaughty for the editing and Iva Stastny Brosig for the design.

The views expressed in this guide are those of the authors and do not represent the official position of the International Trade Centre or the Government of the Republic of Zambia. The images used may not always reflect accurately the country context.

This guide has not been formally edited by the International Trade Centre.

© International Trade Centre 2020

# CONTENTS

		Project	
		dgements	
Ac	ronyms	and Abbreviations	
PA	RT I: IN	TRODUCTION	
1.	Execut	ive summary	
2.		nent licence	
З.	Compa	any incorporation requirements	
PA		AX LAWS IN FORCE AND COMPLIANCE REQUIREMENTS	
4.	Introdu	ction to Zambian tax	6
	4.1	Financial accounts	
5.	Corpor	ate tax	7
	5.1	Corporate Tax	
	5.2	Submission deadlines	7
		Late return submission and late payment penalties and interest	
		Corporate tax cont'd	
		Corporate tax for mining sector	
		Corporate tax for mining sector cont'd	
	5.7	Applicable levies	
6.		al taxes	
		Employee-related statutory deductions	
		PAYE	
		Exempt threshold	
		Marginal rate and tax bands adjustment	
	6.2	Employee-related statutory deductions cont'd	
		Skills development levy	
		Personal levy	
		National Pension Scheme Authority (NAPSA) requirements	
		National Health Insurance Scheme	
		Workers' Compensation Fund Control Board	
7.		lding tax	
		WHT requirements	
		Withholding tax (WHT)	
	7.3	Double taxation treaties	
8.	VAT / re	everse VAT	17



9.	Custor	ms and Excise duty	18
10.	Other	tax matters	
	10.1	Other taxes	
	10.2	Transfer pricing	
	10.3	Debt equity ratio	
	10.4	Property transfer tax	
	10.5	Tax Appeals Tribunal	20
11.	The Za	ambian tax environment compared with other African countries	
12.	Immig	ration	
13.	Licenc	ces	23

# LIST OF TABLES

TABLE 1:	Submission deadlines	7
TABLE 2:	The various year-on-year non-mining tax rates	
TABLE 3:	Capital allowance deductions	<u>9</u>
TABLE 4:	Corporate tax for mining sector	
	Corporate tax for mining sector cont'd	
TABLE 6:	Applicable levies	11
	The PAYE tax bands	
TABLE 8:	The various year-on-year non-mining tax rates	
TABLE 9:	Double taxation treaties	
TABLE 10:	Customs and Excise duty	
TABLE 11:	The Zambian tax environment compared with other African countries	
TABLE 12:	The Zambian tax environment compared with other African countries Cont'd	
TABLE 13:	Immigration	

# ACRONYMS AND ABBREVIATIONS

- PAYE Pay as You Earn
- NAPSA National Pension Scheme Authority
- TPIN Taxpayer identification number
- VAT Value-added tax
- WHT Withholding tax
- ZRA Zambia Revenue Authority

# PART I: Introduction



### **1. EXECUTIVE SUMMARY**

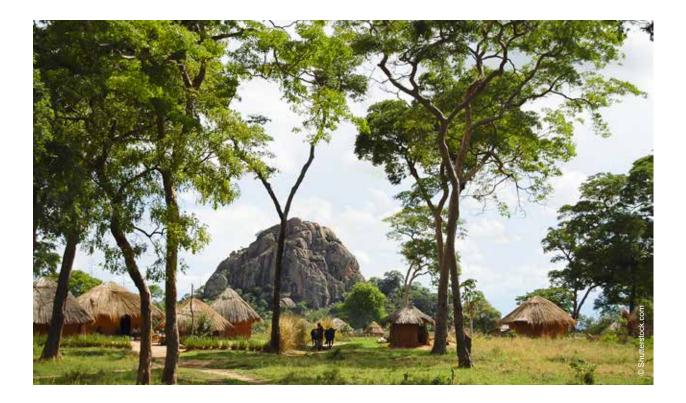
Setting up a business in Zambia is a simple process that can be achieved in a short time frame. Incorporating a company with the Patents and Companies Registration Agency can be done within two to three working days and tax registrations with the Zambia Revenue Authority can be completed within one to two working days.

No sectors are barred to foreign investors and Zambian legislation does not provide any restrictions on the percentage of equity that might be held by a foreign investor.

Zambia is a party to various trade agreements, which include the Common Market for Eastern and Southern Africa (COMESA), which is currently a customs union, and the Southern African Development Community (SADC) and the "African Continental Free Trade Area (AfCFTA)". The government has also signed double taxation agreements with various countries, and these agreements provide for more favourable tax rates. Zambia's location and natural resources make it a very attractive location for trade.

The government welcomes investors across sectors and the laws relating to investment provide investment incentives and protection, in order to attract increased investment and international trade, as well as increased domestic economic growth.

This guide provides guidance on setting up a business in Zambia and the compliance requirements of various regulatory bodies while operating a business in Zambia.



2

# 2. INVESTMENT LICENCE

There are no limits on the amount of investment that is required to be made for an **investment licence**; however, there are some minimum investment thresholds to qualify for certain benefits in priority sectors, specifically:

- No less than \$250,000 in order to qualify for non-fiscal incentives; and
- No less than \$500,000 in order to qualify for special tax incentives for priority sectors or products located in multi-facility economic zones.

The following documentation is required for an application for a licence with the Zambia Development Agency (ZDA):

- Completed formal application form from the ZDA;
- Certified copy of Certificate of Incorporation/ registration;
- Certified copy of certificate of share capital;
- Certified copy of a certificate of minimum share capital;
- Certified copy of an official list of shareholders and/or directors;
- Business plan or and feasibility study;
- Verifiable evidence of project finance;
- Brief resumes/CVs for shareholders and/or directors;

The **investment licence** is valid for **10 years** from the date of issue;

The investor may apply for renewal of the investment licence before the date of its expiry.

#### **AVAILABLE TAX INCENTIVES**

The following **incentives** are provided for a period of **five years** from the commencement of business operations:

- A **0% import duty** on plant, machinery and equipment acquired for an investment.
- Eligible investors will be able to claim on a straight line basis for wear and tear at an accelerated rate, not exceeding 100% in respect of any new implement, plant or machinery acquired and used by the business for the purposes of that business.



#### PRIORITY SECTORS FOR INVESTMENT INCENTIVES

The following incentives are provided for a period of five years from the commencement of business operations:

Construction and establishment of infrastructure activities (excluding renovation, expansion and refurbishment), in particular:

- Education construction of education and skills training institutions.
- Health construction of health centres as defined under the Health Professions Act of 2009.
- Tourism construction and establishment of hotels, convention centres, exhibition centres, museums, theme parks, art galleries and theatres.
- Housing development of fifty or more houses erected or maintained under one management or control on land developed specifically for the placing of such houses in accordance with a comprehensive plan that provides for the laying out of roads and the furnishing and availability of services essential or ancillary to the use of such buildings as houses.
- Agriculture construction of crop and grain storage facilities.

#### Energy and water development:

- Power building, installation of power stations and power generation (including solar power generation).
- Fuel building and installation of processing and refinery plants for biofuel; construction of petroleum refineries; construction of pipelines; and construction of rural filling stations.
- Water supply construction of depots; construction of dams; construction of irrigation canals; and construction of water and sewerage treatment plants.

# 3. COMPANY INCORPORATION REQUIREMENTS

- Company incorporation and business name registrations are regulated by the Companies Act No. 10 of 2017 of the Laws of Zambia (CA) and the Registration of Business Names Act 2011.
- The CA governs the incorporation/registration of the following companies:
  - Private company limited by shares (private limited company)
  - Private company limited by guarantee
  - Public company limited by shares
  - Unlimited company
  - Foreign company (branch)
- The most commonly registered companies are the:
  - Private limited company; and
  - Foreign company
- The Business Names Act governs the registration of a business name as a:
  - Sole proprietorship
  - Partnership

The first step towards incorporating or registering a company is to complete a Name Clearance Form requesting for a particular proposed name to be cleared.

#### COMPANY LIMITED/UNLIMITED BY SHARES INCORPORATION REQUIREMENTS:

- Minimum of two directors; at least 50% of the directors must be resident in Zambia;
- Minimum of two shareholders;
- Minimum share capital of K15,000.00;
- Proposed registered office;
- The above documents must be in the English language;
- It takes approximately 5–10 working days to complete the registration upon submission of all required documents.

# BRANCH REGISTRATION REQUIREMENTS:

- At least one and not more than nine local directors must be appointed as directors of a foreign company. At least one local director of the company must be resident in Zambia and, if the company has more than two local directors, more than half of them shall be residents of Zambia.
- At least one documentary agent (a firm, corporate body registered in Zambia or an individual who is a resident in Zambia).
- A certified copy of the certificate of Incorporation from the country of origin must be attached.
- The charter, statutes, regulations, memorandum and articles or other instruments relating to a foreign company must be submitted.
- Latest financial statements of the parent company.
- The issuance and sealing of the Certificate of Registration marks the end of the process for registration.
- The above documents must be in the English language.
- It takes approximately 5–10 working days to complete the registration upon submission of all required documents.

### **BUSINESS NAME REGISTRATION REQUIREMENTS:**

- Name clearance (proposed three business names);
- Nature of business;
- Proposed address of the business;
- The full names, identification numbers and addresses of the applicants and beneficial owners of the shares;
- Completion of Business Name Form 3 (BN Form III) – an application form for a business name that is to be completed and executed by the sole proprietor. This form must be completed in the English language;
- Upon clearance of the proposed name and submission of the required registration documents, a certificate of registration of the business name will be provided within 5–10 working days.

4

PART II: Tax laws in force and compliance requirements



### 4. INTRODUCTION TO ZAMBIAN TAX

Zambia principally operates a source-based system of taxation. Therefore, strictly speaking, any income that is deemed to be from a source within Zambia will be liable for tax in Zambia.

Upon registration for taxes, a single taxpayer identification number (TPIN) is provided to a taxpayer. The TPIN is linked to all the taxpayers' tax types with the Zambia Revenue Authority.

The following are the taxes payable in Zambia:

- Corporate tax;
- Value-added tax (VAT)/VAT reverse charge;
- Withholding tax;
- Pay as You Earn;
- Property transfer tax; and
- Customs and excise duties.

#### 4.1 Financial accounts

Zambian income tax is calculated based on accounts prepared in line with International Financial Reporting Standards (IFRS), and these accounts must be prepared using the Zambian Kwacha currency. A company (except for a small private company) is expected to appoint auditors within three months of being incorporated.



#### TAX REGISTRATION REQUIREMENTS:

- Certificate of Incorporation of the company
- Certificate of share capital of the company
- Articles of association of the company
- A map (sketch) of your business location
- Tenancy agreement for the business premises
- A printout of your bank account in Zambia showing the funds currently available in the account
- A business plan and projected cash flow for a period of one year

An auditing firm may be appointed to be the auditor of a company if at least one partner of the firm is ordinarily resident in Zambia; all or some of the partners, including the partner who is ordinarily resident in Zambia, are qualified for appointment as auditors and registered to practice with the Zambia Institute of Chartered Accountants.

"A small private" company is a company:

- (a) whose total investment, excluding land and buildings-
  - (i) in the case of a manufacturing company, does not exceed five hundred thousand Kwacha; or
  - (ii) in the case of a company which deals in trading or the provision of services, does not exceed three hundred thousand Kwacha;
- (b) whose annual turnover does not exceed eight hundred thousand Kwacha; and
- (c) that employs less than one hundred employees.

6



# **5. CORPORATE TAX**

#### 5.1 Corporate tax

Companies registered in Zambia with an annual turnover of ZMW 800,000 or more should register for corporate income tax, and companies with an annual revenue of less than ZMW 800,000 are required to register for turnover tax. Companies will be automatically switched from turnover tax to corporate tax when the ZMW 800,000 threshold is exceeded.

The standard corporate income tax rate in Zambia is 35%. A company's taxable income is based on the financial

statements prepared for the period of account as adjusted for tax purposes (i.e. disallowance of depreciation and expenditure specifically disallowed for tax purposes and calculation of capital allowances and deductions allowed for tax purposes, etc.).

The tax charge year runs from 1 January to 31 December. Submission of the annual income tax return is due by 21 June following the end of the tax charge year.

#### 5.2 Submission deadlines

TABLE 1Submission deadlines

2019 CHARGE YEAR	DUE DATE
Submission of provisional income tax return (electronic)	31 March 2019
Submission of income tax provisional tax return (manual)	5 March 2019
Payment of first quarter provisional tax installment	10 April 2019
Payment of second quarter provisional tax installment	10 July 2019
Payment of third quarter provisional tax installment	10 October 2019
Payment of fourth quarter provisional tax installment	10 January 2020
Submission of annual tax return for 2018 and payment of balance of tax (electronic)	21 June 2019
Submission of annual tax return for 2018 (manual)	5 June 2019

### 5.3 Late return submission and late payment penalties and interest

Failure to submit the returns on time results in a penalty of ZMW 600 for a month or part thereof that the return is late. Any late payment of the final tax attracts a penalty of 5% per month or part thereof that the amount was outstanding, plus interest at the Bank of Zambia discount rate plus 2%.

7



# 5.4 Corporate tax cont'd

The various year-on-year non-mining tax rates are indicated in the table below.

	The verieue	year-on-year non-mining tax rates
TADLE 2	The valious	year-on-year non-mining lax rales

	CHARGE YEAR					
CATEGORY	2020	2019	2018	2017	2016	2015
Manufacturing and other	35%	35%	35%	35%	35%	35%
Manufacturing - value added to copper cathodes	15%	15%*	35%	35%	35%	35%
Manufacturing of organic fertilizers	15%	15%	15%	15%	15%	15%
Manufacture of chemical fertilizers	15%	15%	15%	15%	15%	15%
Farming	10%	10%	10%	10%	10%	10%
Agroprocessing	10%	10%	10%	10%	10%	10%
Companies listed on the Lusaka Stock Exchange (less 2% in first year of listing on LuSE/less 5% for as long as one-third of shares are owned by indigenous Zambians)	35%	35%	35%	35%	35%	35%
Public benefit organizations on business income	15%	15%	15%	15%	15%	15%
Non-traditional exports	15%	15%	15%	15%	15%	15%
Export of non-traditional export from farming or agroprocessing	10%	10%	10%	10%	10%	10%
TELECOMMUNICATIONS COMPANII	S					
Up to ZMW 250,000	35%	35%	35%	35%	35%	35%
In excess of ZMW 250,000	40%	40%	40%	40%	40%	40%
CARRY FORWARD OF TAX LOSSES						
Electricity generation by hydro and thermal power	10 years	10 years	10 years	10 years	10 years	10 years
Electricity generation using other sources except wood	5 years	5 years	5 years	5 years	5 years	5 years
All other non-mining companies	5 years	5 years	5 years	5 years	5 years	5 years



Capital allowance deductions.

#### TABLE 3 The capital allowance deductions

	CHARGE YEAR						
CATEGORY	2020	2019	2018	2017	2016	2015	
CAPITAL ALLOWANCES DEDUCTION	NS						
Investment/initial allowance on new industrial buildings	10%	10%	10%	10%	10%	10%	
Industrial building allowance	5%	5%	5%	5%	5%	5%	
Plant and machinery used in manufacturing and tourism	50%	50%	50%	50%	50%	50%	
Implements, machinery and plant used in the generation of electricity	50%	50%	50%	50%	50%	50%	
Plant, equipment and machinery used in farming and agroprocessing	100%	100%	100%	100%	100%	100%	
Commercial buildings	2%	2%	2%	2%	2%	2%	
Commercial motor vehicles and other plant and machinery	25%	25%	25%	25%	25%	25%	
Non-commercial motor vehicles	20%	20%	20%	20%	20%	20%	
Farm works/improvements and improvement allowance under multi-facility economic zones only	100%	100%	100%	100%	100%	100%	
Capital allowances to be provided on a	in annual ba	sis irrespect	tive of how a	ccounts are	drawn or pr	epared	

Interest allowable on debts owed will be limited to 30% of earnings before interest, tax deprecation and amortization (EBITDA) for purposes of company tax (effective 1 January 2019)



# 5.5 Corporate tax for mining sector

# TABLE 4 Corporate tax for mining sector

	CHARGE YEAR							
CATEGORY	2020	2019	2018	2017	2016	2015 2 <sup>nd</sup> half	2015 1 <sup>st</sup> half	
Mining – base metals/ gemstones/precious metals	30%	30%	30%	30%	30%	30%	35%	
Mineral processing	30%	30%	30%	30%	35%	35%	35%	
Mineral royalty rates								
Mineral royalty tax scales on base	metals							
\$1–\$4,449	5.5%	5.5%*	4%	5%	6% and 9%	6% and 9%	8% and 20%	
\$4,500-\$5,999	6.5%	6.5%*	5%	5%	6% and 9%	6% and 9%	8% and 20%	
\$6,000-\$7,499	7.5%	7.5%*	6%	5%	6% and 9%	6% and 9%	8% and 20%	
\$7,500 and above	10%	10%*	6%	5%	6% and 9%	6% and 9%	8% and 20%	
Mineral royalty on precious metals	6%	6%	6%	6%	6% and 9%	6% and 9%	8% and 20%	
Mineral royalty on gemstones	6%	6%	6%	6%	6% and 9%	6% and 9%	8% and 20%	
Mineral royalty on cobalt	8%	8%*	5%	5%				
Mineral royalty tax is a non-deduct	tible levy fo	r income ta	x purposes	s*				
Persons in possession of minerals	are require	ed to accou	int for mine	ral royalty				
CAPITAL ALLOWANCES DEDUC	TIONS							
Mining equipment and related capital expenditure (claim when asset is brought into use)	20%	25%	25%	25%	25%	25%	25%	
Commercial motor vehicles and other plant and machinery	25%	25%	25%	25%	25%	25%	25%	
Non-commercial motor vehicles	20%	20%	20%	20%	20%	20%	20%	
Use average Bank of Zambia (BO	Z) mid rate	for comput	ing indexed	d losses an	d capital all	owances		

CARRY FORWARD OF TAX LOSSES									
Mining operations	10 years								
Prospecting and exploration	5 years								
VAT deferment scheme (annual application)	Yes*	Yes	Yes	Yes	Yes	Yes	Yes		
Other rates									
Withholding tax on dividends	0%	0%	0%	0%	0%	0%	0%		

# 5.6 Corporate tax for mining sector cont'd

TABLE 5	Corporate ta	x for mining	sector cont'd
---------	--------------	--------------	---------------

	CHARGE YEAR						
CATEGORY	2020	2019	2018	2017	2016	2015	
Thin capitalization threshold – debt to equity ratio	EBITDA	EBITDA	3:1	3:1	3:1	3:1	
Taxation of hedging income	35%	35%	35%	35%	35%	35%	
Property transfer tax on sale or transfer of land, shares or intellectual property	5%	5%	5%	5%	10%	10%	
Property transfer tax on sale or transfer of mining rights or interest in mining rights	10%	10%	10%	10%	10%	10%	
Capital allowances to be provided on an annual basis irrespective of how accounts are drawn or prepared							
Interest allowable on debts owed v amortization (EBITDA) for purpose					deprecation	and	

# 5.7 Applicable levies

# TABLE 6 Applicable levies

		CHARGE YEAR						
CATEGORY	2020	2019	2018	2017	2016	2015		
Insurance premium levy	3%	3%	3%	0%	0%	0%		
Skills development levy	0.5% of the entire wage bill	0.5%	0.5%	0%	0%	0%		
National Health Insurance contribution	2% of employees' basic salary							
Tourism levy	1.5%	1.5%	1.5%	0%	0%	0%		



# 6. PERSONAL TAXES

# 6.1 Employee-related statutory deductions

#### PAYE

As Zambia operates a source-based system of taxation, individuals undertaking any work in Zambia will be liable to tax in Zambia. Under the Income Tax Act, it is the employer's responsibility to deduct and account for Pay as You Earn (PAYE). Individuals will be required to account for PAYE on any worldwide income received while resident in Zambia.

An employer will need to register itself and its employees by completing the Zambia Revenue Authority (ZRA) prescribed forms and this should be accompanied by:

- The employer's certificate of registration/incorporation; and
- Each employee's National Registration Card Number (for Zambian nationals or TPIN for expatriates).

PAYE must be accounted for to the ZRA within 10 days following the end of the month of payment.

#### **Exempt threshold**

The exempt threshold remains the same in 2019 at ZMW 3,300 per month and ZMW 39,600 per annum.

#### Marginal rate and tax bands adjustment

The marginal PAYE rate in 2019 will remain the same at 37.5%. The PAYE tax bands remain the same, as indicated in the tables below.

TABLE 7The PAYE tax bands

MONTHLY Current PAYE bands – 2019		ANNUAL Current PAYE bands – 2019			
From	То	Tax rate	From	То	Tax rate
0	3 300.00	0%	0	39 600.00	0%
3 300.01	4 100.00	25%	39 600.01	49 200.00	25%
4 100.01	6 200.00	35%	49 200.01	74 400.00	35%
Above	6 200.00	37.5%	Above	74 400.00	37.5%

#### **COMPLIANCE REQUIREMENTS:**

- PAYE is required to be deducted at source and accounted for to the ZRA within 10 days (14 days in 2016) or from the end of the month in which payment is made or accrued, whichever is earlier.
- Failure by a taxpayer to file a return within the regulatory 10 days (14 days in 2016) will render the taxpayer liable to a penalty of ZMW 600 per month or part month for which the return is not submitted.
- The late payment of PAYE may result in late payment penalties of 5% per month or part thereof for each month the payment is outstanding, plus interest at 2% above the Bank of Zambia (BOZ) discount rate.

# 6.2 Employee-related statutory deductions cont'd

#### Skills development levy

- Skills development levy at 0.5% is applicable on the gross emoluments payable to an employee, including a casual employee, during a month. The levy is due and payable whether or not the employer has settled the wage bill for the relevant month.
- The levy shall be computed on the gross emoluments payable by the employer and should not be deducted or recovered from the emoluments of the employee.
- The levy is an allowable deduction in the tax computation of an employer. To be eligible to claim the deduction, the taxpayer must be an employer who has actually paid the levy in that charge year. Where the employer has accrued the expenditure without making any payment, the deduction will not be allowed.

#### **Personal levy**

- Personal levy tax is operated under the Personal Levy Act 329 of the Laws of Zambia. The law requires that an individual earning income in excess of ZMW 300 should remit the personal levy to the local authority in the area in which the income is earned.
- Personal levy is at 1% of any income in excess of ZMW 300, but the maximum an individual is required to pay is ZMW 15.00 per annum.

# National Pension Scheme Authority (NAPSA) requirements

- This is a compulsory national pension contribution scheme.
- All employees (including expatriates) are required to contribute 5% of their taxable monthly emoluments, which is matched by the employer - up to a maximum of ZMW 1,073.80 (2016: 843.97, 2017:894.61, 2018:955.00)
- The employer is mandated to deduct the contributions and remit to NAPSA.

#### **National Health Insurance Scheme**

- An employer is expected to pay to the scheme an employee's contribution consisting of: the employer's contribution of 1% and the employee's contribution of 1% of the employee's basic salary (a total of 2% of an employee's basic salary).
- A manager of a pension scheme should pay to the scheme a retiree's contribution.
- A self-employed citizen/resident is required to pay a contribution of 1% of his declared income to the scheme.
- Unlike NAPSA contributions, there is no ceiling provided on the National Health Insurance (NHI) contributions.
- A foreigner who enters the country without valid health insurance will be required to register and pay for health insurance on arrival at the port of entry.

#### Workers' Compensation Fund Control Board

- The Workers' Compensation Fund Control Board (WCFCB) is a social security scheme constituted under the Workers' Compensation Act No. 10 of 1999 of the Laws of Zambia.
- It is a social insurance scheme to which employers make payments, otherwise known as assessments. Its main objective is to compensate workers for disabilities suffered or diseases contracted during the course of employment.
- Only the employer makes a yearly contribution known as an assessment payment. The payments are not uniform across all employers; they are determined by the degree of risk associated with a particular activity. The payments range from 2.82% to 6.93% of K9,600 per year. Where the earnings of any worker exceeds K9,600.00, only K9,600.00 should be declared in respect of that worker.

#### **COMPLIANCE REQUIREMENTS:**

- NAPSA is required to be deducted at source and accounted for to NAPSA within 10 days from the end of the month in which payment is made or accrued, whichever is earlier.
- Failure by a taxpayer to file a return within the required 10 days after the month end will render the payer liable to a penalty of 20% of the return amount per month that the return and payment are late.





# 7. WITHHOLDING TAX (WHT)

# 7.1 WHT requirements

Withholding tax (WHT) is deductible from:

- Management and consultancy fees paid to non-residents at 20% and paid to residents at 15% (effective 1 January 2016).
- The definition of management and consultancy was revised as follows (effective January 2018):
- 'A payment in any form, other than an emolument, for or in respect of any administrative; consultative; managerial, technical, or any service of a like nature of any information technology solution, program, system or a combination.'
- Royalties at 20% to non-residents and 15% to residents. Please note that included in the definition of royalties in the Income Tax Act is the right to the use of industrial, commercial and scientific equipment; i.e. this includes lease payments made in relation to such equipment, although it is ZRA practice to exclude non-resident or domestic payments on finance leases from the requirement to withhold.
- Commissions are paid to non-residents at 20% and 15% to residents.
- Payments to non-resident haulers and contractors at 20%.
- Dividends and interest payments to non-residents at 20% effective 1 January 2019 (15% prior to 1 January 2019) and 15% to residents.
- Branch profit distributions at 15%.
- Rent at 10%.
- Public entertainment fees to non-residents at 20%.
- Winnings from gaming, lotteries and betting at 20%.



It is the responsibility of the payer to withhold tax and remit the amount payable to the ZRA.

WHT is required to be deducted at source and accounted for to the ZRA within 14 days from the end of the month in which payment is made or accrued, whichever is earlier.

> Failure by a tax payer to file a return within the required 14 days, will render the taxpayer liable to a penalty of ZMW600 per month or part month for which the return is not submitted.

The late payment of WHT may result in late payment penalties of 5% per month or part thereof for each month the payment is outstanding plus interest at 2% above the Bank of Zambia (BOZ) discount rate.





# 7.2 Withholding tax (WHT)

 TABLE 8
 The various year-on-year non-mining tax rates

CATEGORY	NON-RE	SIDENT	RESIDENT
Non-mining dividend payouts	20%*		15%
Profits distribution by branches of foreign companies	20	%*	15%
Management and consultancy fees	20	)%	15%
Royalties	20	)%	15%
Interest for individuals on savings and deposit accounts	0	%	0%
Interest on Treasury Bills for individuals (final tax)	15	5%	
Interest on Treasury Bills (final tax for public benefit organizations)	15	5%	
Interest on government bonds (coupon income)	15	5%	
Interest payable	20%*		15%
Commissions	20	)%	15%
Public entertainment fees to non- residents (final tax)	20	)%	0%
Contractors	20	)%	0%
Rentals (final tax)	10%		0%
Property transfer tax (Indirect control/ownership change in a foreign country of an interest in a Zambian asset)	5%		5%
NAPSA tax allowable threshold/month	ZMW 0		ZMW 0
Winnings from gaming, lotteries and betting			
Casino live games	20%		
Casino machine games	35%	20%	20%
Lottery winnings	35%	20%	20%
Betting	10%	20%	20%
Gaming – per machine per month	ZMW 250– ZMW 500*	ZMW 0	ZMW 0



#### 7.3 Double taxation treaties

#### TABLE 9 Double taxation treaties

COUNTRY	Dividends (%)	Interest (%)	Royalties (%)	Management fees (%)
Canada	15%	15%	15%	Nil***
China	5%	10%	5%	Nil****
Denmark	15%	10%	15%	Nil
Finland	5/15%**	15%	5/15%	Nil
France	0%	0%	0%	0%
Germany	5/15%**	10%	10%	Nil
India	5/15%**	10%	10%	Nil***
Ireland	7.5%	10%	10%	Nil
Italy	5/15%**	10%	10%	Nil
Japan	Nil	10%	10%	Nil
Kenya	20%***	20%***	20%*	20%*
Mauritius	5/15%**	10%	5%	Nil
The Netherlands	5/15%**	10%	10%	Nil
Norway	15%	10%	15%	Nil
Romania	10%	10%	10%	Nil
South Africa	20%***	20%***	20%*	20%*
Sweden	5/15%**	10%	10%	Nil
Switzerland	5/15%**	Nil	Nil	Nil
Tanzania	20%***	20%***	20%*	20%*
Uganda	20%***	20%***	20%*	20%*
The United Kingdom	5/15%**	10%	10%	Nil

\* Rate applies if income is subject to tax in the country of the recipient.

\*\* The 5% rate applies if the recipient is a company **that directly or indirectly controls** at least **25%** of the voting power/capital/shares in the company paying the dividends.

\*\*\*These rates are effective 1 January 2019.



### 8. VAT / REVERSE VAT

#### VAT:

#### **VAT registration process**

The following information is required for VAT registration:

- Certificate of incorporation of the company
- Certificate of share capital of the company
- Articles of association of the company
- A map (sketch) of your business location
- Tenancy agreement for the business premises
- A printout of your bank account in Zambia showing the funds currently available in the account
- A business plan and projected cash flow for a period of one year
- Businesses that make more than K800,000 of "VATable" supplies in any 12-month period or K200,000 in any three months should register for VAT.
- Businesses should levy 16% VAT on all supplies made to other companies, and should provide a valid tax invoice for all supplies.
- Businesses should be able to recover VAT on both domestic supplies and on imported goods/ services.
- Businesses should complete a VAT return and pay the VAT due to the ZRA by the 18th of the month following that in which the VAT arose.
- The importation of standard rated services into Zambia imposes certain VAT requirements on Zambian entities or businesses; this entails foreign suppliers of services appointing a Zambian tax agent.

#### **REVERSE VAT:**

#### VAT registration process

Reverse VAT at 16% should be charged on all "VATable" services imported into Zambia from a non-resident supplier. This reverse VAT is irrecoverable unless the non-resident supplier appoints a Zambian tax agent to prepare a valid Zambian tax invoice.

Foreign service suppliers will be required to appoint a Zambian tax agent (who should be registered as such with the ZRA; the agent will be responsible for accounting for the reverse VAT due.

The reverse VAT process is that the foreign supplier will provide the tax agent with a copy of their invoice. The agent uses the provided invoice to prepare a valid Zambian tax invoice (which includes 16% VAT) for the services provided. This will be provided to AfriConnect, who will use it to pay the VAT due to the ZRA, and will also use the invoice to reclaim the input VAT they have paid in line with the standard rules on the recoverability of input VAT.

#### How to claim VAT

VAT can only be reclaimed when in possession of the appropriate documentation in hardcopy: a valid tax invoice for input VAT, customs form CE20 for import VAT and an invoice issued by an approved reverse VAT agent for reverse VAT. The documents must not be dated more than three months from the date the claim is made.



### 9. CUSTOMS AND EXCISE DUTY

Import duties should only apply to items that are permanently imported into Zambia. Items that are only temporarily imported using a temporary import permit (TIP) should not be subject to import duties, although a refundable set fee may be payable.

Note that the advance income tax (AIT) is a tax charge on imported goods for commercial purposes and computed at the point of entry at the rate of 15% of the value for duty purposes of the imported goods and is not the final tax. In order for ZRA to stop charging AIT, a company will have to have their taxpayer identification number (TPIN) configured in the ZRA ASYCUDA system and be continuously tax compliant.

A company will need to carefully consider how the import duties should be managed and priced into the contract. In particular, please note that a number of the items to be imported may not be subject to customs duties or excise duties, although they are likely to be standard rated for VAT purposes and the companies should be able to recover the VAT. Companies should review the existing Customs and Excise tariff rates for all items they wish to import to determine what the expected import duties arising on these should be.

Please note that for Zambian customs duties, the value for duty purposes is broadly the open market value of the goods, plus costs of transport to the border of Zambia, insurance and incidental costs calculated in kwacha on the day of importation. For Zambian excise duties, the value for duty purposes is the same as the customs value, plus any customs duties paid. For Zambian import VAT, the value for VAT purposes is the same as the excise value, plus any excise duties paid. If no excise duties are payable, then the value for VAT purposes is the same as the customs value, plus any customs duties paid.

Zambia is a member of both the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). Goods that have been manufactured in these regions should be eligible for reduced import duties in Zambia. In order to claim the reduced duties, a certificate of origin from the country of manufacture should be available.

	CHARGE YEAR					
CATEGORY	2020	2019	2018	2017	2016	2015
Import duty on certain mining equipment	Rebate	Rebate	Rebate	Rebate	Rebate	Rebate
Commercial imports (advance income tax)	15%	15%	15%	15%	6%	6%
Export duty on copper and cobalt concentrates	10%	10%	10%	10%	10%	10%
Import duty on copper and cobalt concentrates	5%	5%	0%	0%	0%	0%
Export duty on precious metals and gemstones	15%	15%	0%	0%	0%	0%
Export duty on manganese ores and concentrates	15%	15%	10%	10%		

#### TABLE 10 Customs and Excise duty

# **10. OTHER TAX MATTERS**

#### 10.1 Other taxes

#### **TURNOVER TAX**

Threshold	Up to ZMW 800 000			
Standard rate	4%*			
Turnover tax under declaration penalties:				
Penalty for negligence 1				
Penalty for late return	ZMW 150			
Penalty for willful default	3%			
Penalty for fraud	4.50%			

#### CARBON TAX (PER ANNUM)

Motor cycles	ZMW 50
Engine size greater than 1 500 cc	ZMW 50
Engine size between 1 500 cc and 2 000 cc	ZMW 100
Engine size between 2 000 cc and 3 000 cc	ZMW 150
Engine size over 3 000 cc	ZMW 200

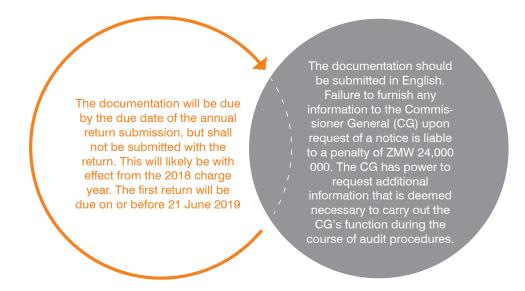
#### PRESUMPTIVE TAX FOR INDIVIDUALS OPERATING PUBLIC SERVICE VEHICLES

Vehicle seating capacity	Current tax per annum (ZMW)
64 seater and above	10 800
50–63 seater	9 000
36–49 seater	7 200
22–35 seater	5 400
18–21 seater	3 600
12–17 seater	1 800
Below 12 seater	900

# 10.2 Transfer pricing

Any person participating in a controlled transaction is required to prepare and have in place existing documentation that verifies that the conditions in its controlled transactions for the relevant tax year are consistent with the "arm's length principle". Any group transfer pricing policy should be localized.

The exception to the regulation is to a person whose annual turnover is below K20 million in any charge year; in which case these rules will not apply.







### 10.3 Debt equity ratio

There is no legal restriction on the proportion of debt to equity. In particular, legally it may be more flexible for the contribution to be made by way of shareholder loans rather than equity, since shareholder loans can be repaid more easily regardless of the retained earnings of the company, whereas dividends can only be paid from retained earnings.

Effective 1 January 2019, a deduction is not allowed on a gross interest expense that exceeds 30% of the tax earnings before interest, tax, depreciation and amortization. However, interest on which a deduction is not allowed may be carried forward (for a period not exceeding **five** years) and treated as incurred during the next charge year.

### 10.4 Property transfer tax

#### **PROPERTY TRANSFER TAX:**

The transfer of property in a Zambian incorporated company will attract property transfer tax (PTT). The term "property" is defined in the Property Transfer Tax Act as:

- Any land in the republic at 5%;
- Any share issued in a company at 5%;
- A mining right issued under the Mines and Minerals Development Act, or an interest therein at 10%;
- Intellectual property this includes a patent, trademark, copyright or industrial design – at 5%.

# 10.5 Tax Appeals Tribunal

#### TAX APPEALS TRIBUNAL:

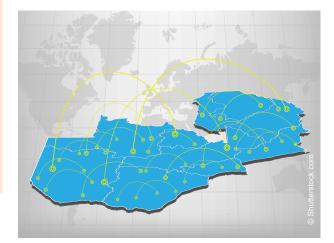
The Tax Appeals Tribunal (the tribunal) is governed by the Tax Appeals Tribunal Act No.1 of 2015 (TAT Act).

The function of the tribunal is to hear appeals from decisions of the Commissioner General under the Income Tax Act, VAT Act, Property Transfer Tax Act, Customs & Excise Act and any other Zambian tax legislation.

The TAT Act requires that the tribunal renders a decision on a matter within 60 days after the conclusion of the hearing of the matter.

The Registrar of the tribunal is expected to ensure that decisions are communicated to the parties concerned within seven days of them being made.

A party to an appeal to the tribunal may appeal the decision of the tribunal to the Supreme Court on a question of law and not fact alone.



# 11. THE ZAMBIAN TAX ENVIRONMENT COMPARED WITH OTHER AFRICAN COUNTRIES

	ZAMBIA	KENYA	RWANDA	UGANDA	MOZAMBIQUE	SOUTH AFRICA
Corporate income tax	35%	30%	30%	30%	32%	28%
VAT	16%	16%	18%	18%	17%	15%
PAYE	A maximum rate of 37.5%	A maximum rate of 30%	A maximum rate of 30%	A maximum rate of 40%	A maximum rate of 32%	A maximum rate of 45%
Capital gains tax	Property transfer tax at 5-10%	5%	30%	30%	50%-100%	0%–22.4%
Withholding tax <ul> <li>Dividends</li> <li>Branch profits</li> <li>Management</li> <li>Interest</li> <li>Royalties</li> </ul>	<ul> <li>15%/20%</li> <li>15%</li> <li>15%/20%</li> <li>15%/20%</li> <li>15%/20%</li> </ul>	<ul> <li>5%/10%</li> <li>Nil</li> <li>5%/20%</li> <li>15%/15%</li> <li>5%/20%</li> </ul>	<ul> <li>0%</li> <li>0%/15%</li> <li>15%/15%</li> <li>0%/15%</li> <li>15%/15%</li> </ul>	<ul> <li>15%/15%</li> <li>0%/15%</li> <li>6%/15%</li> <li>15%/15%</li> <li>6%/15%</li> </ul>	<ul> <li>20%</li> <li>N/A</li> <li>20%</li> <li>20%</li> <li>20%</li> </ul>	<ul> <li>20%</li> <li>N/A</li> <li>0%</li> <li>15%</li> <li>15%</li> </ul>

 TABLE 11
 The Zambian tax environment compared with other African countries

 TABLE 12
 The Zambian tax environment compared with other African countries Cont'd

COUNTRY	Available incentives
ZAMBIA	<ul> <li>0% import duty on plant, machinery and equipment acquired for an investment.</li> <li>Eligible investors will be able to claim on a straight line basis for wear and tear at an accelerated rate, not exceeding 100% in respect of any new implement, plant or machinery acquired and used by the business for the purposes of that business.</li> </ul>
KENYA	<ul> <li>Special economic zones</li> <li>Corporate tax: First 10 years – 10%; next 10 years – 15%</li> <li>VAT: Exempt</li> <li>Customs and excise: Exempt</li> <li>Withholding tax: Dividends paid are exempt. Payment by special economic zones (SEZs) to non-resident for management fee, royalty and interest at 5%.</li> <li>Stamp duty: Exempt</li> <li>Export processing zones</li> <li>Corporate tax: First 10 years – exempt; next 10 years – 25%</li> <li>VAT: Exempt</li> <li>Customs and excise: Exempt</li> <li>Kustoms and excise: Exempt</li> <li>Withholding tax: 10-year holiday</li> </ul>
MOZAMBIQUE	<ul> <li>Industrial free zone operators and enterprises: Exemption in the first 10 years; 50% reduction in the general rate from the 11<sup>th</sup> to the 15<sup>th</sup> year; 25% reduction in the remaining years of the project.</li> <li>Isolated free zone enterprises: Exemption in the first 5 years; 50% reduction in the general rate from the 6<sup>th</sup> to the 10<sup>th</sup> year; 25% reduction in the remaining years of the project.</li> <li>Special economic zone operators: Exemption in the first 5 years; 50% reduction in the general rate from the 6<sup>th</sup> to the 10<sup>th</sup> year; 25% reduction in the remaining years of the project.</li> <li>Special economic zone enterprises: Exemption in the first 3 years; 50% reduction in the general rate from the 6<sup>th</sup> to the 10<sup>th</sup> year; 25% reduction in the first 3 years; 50% reduction in the general rate from the 4<sup>th</sup> to the 10<sup>th</sup> year; 25% reduction in the general rate from the 11<sup>th</sup> to the 10<sup>th</sup> year; 25% reduction in the first 3 years; 50% reduction in the general rate from the 4<sup>th</sup> to the 10<sup>th</sup> year; 25% reduction in the general rate from the 11<sup>th</sup> to the 10<sup>th</sup> year; 25% reduction in the general rate from the 11<sup>th</sup> to the 10<sup>th</sup> year; 25% reduction in the general rate from the 11<sup>th</sup> to the 10<sup>th</sup> year; 25% reduction in the general rate from the 11<sup>th</sup> to the 15<sup>th</sup> year.</li> </ul>

RWANDA	Special economic zones
	<ul> <li>Corporate tax: 0% for an international company with its headquarters or regional office in Rwanda; 15% for an investor exporting at least 50%; 7-year tax holiday for investors putting in at least \$50 million with 30% as equity, and 5-year tax holiday for microfinance institution approved by Bank of Rwanda.</li> </ul>
	<ul> <li>VAT: Refunds within 30 days on receipt of the relevant tax return document. However, registered investors are refunded within 15 days after the relevant application.</li> </ul>
	Customs and excise duty: Exempt
UGANDA	Export processing zones
	• Corporate income tax: 10-year tax holiday or exemption for qualifying activities.
	VAT: Exempt on importation
	Customs: Exempt
	<ul> <li>Exemption from taxes and duties on all export processing zone imported inputs that are for the exclusive use in the development and production output of the business enterprise, including machinery and equipment, spare parts, raw materials and intermediate goods (subject to any limitation specified in the East African Customs Management Act).</li> </ul>

### **12. IMMIGRATION**

**Visiting visa/permit:** Are issued to persons entering Zambia without an intention to engage in gainful employment. Both the visa and permit are valid for 90 days and can be renewed for a further 90 days.

**Business visa:** Employees coming to Zambia for short-term assignments would be eligible to obtain a business visa. These can be issued as either a single-entry visa or a multiple-entry visa.

**Temporary employment:** This permit is issued to persons on assignments that exceed 30 days up to six

months and would normally be issued after one has exhausted business visa renewals applicable to one.

**Employment permit:** Also called the work permit, it is the most common permit available to employees on assignments that require an individual to be in Zambia for more than six months. The work permits can be valid for three years and are renewable. In practice, however, work permits are issued for two years and are renewable.

**Self-employment permit:** This permit is granted to persons who invest a minimum of \$250,000 in a Zambian company.

ТҮРЕ	Application cost	Renewal cost	Application time
Single-entry visa	\$50	\$50	5 working days
Multiple-entry visa	\$80	\$80	5 working days
Transit visa	\$50	\$50	5 working days
Day tripper visa	\$20	\$20	5 working days
Temporary employment permit	ZMW 4 500	ZMW 5 250	21 working days
Employment permit	ZMW 6 000	ZMW 7 000	21 working days
Temporary permit	ZMW 6 000	ZMW 5 250	21 working days
Investor's permit	ZMW 4 000	ZMW 5 000	21 working days
Residence permit	ZMW 5 000	-	21 working days
Spousal permit	ZMW 750	ZMW 1 500	21 working days

 TABLE 13
 Immigration

NOTE: When filling an employment vacancy, employers are required to demonstrate that a Zambian citizen does not posses the skills required for that job or a Zambian citizen has not applied for that job. Expatriates may only be employed if they posses a critical skill falling under a list to be provided by the Skills Advisory Committee.



### **13. LICENCES**

**Trading licence:** Everyone who is engaged in trade within Zambia is expected to apply for a licence to enable such a person to conduct business. New applications can be made at any time of the year, whereas payment for renewal for established businesses should be made by 1 July to 31 October for the following year's trading. The licence fee will vary depending on the type of business.

**Fire certificate:** A fire certificate is issued once an application form has been completed and submitted, the appropriate fee has been paid and an inspection of the business premises has been made by the fire brigade.

#### NATIONAL COUNCIL FOR CONSTRUCTION REGISTRATION REQUIREMENTS:

- Applicants must be limited companies and must have 51% of shares in a limited liability company held by person(s) with formal training in a construction field. Training should be a minimum accredited certificate.
- A least one of the directors must have the minimum technical qualification in a construction-related course. When assessing for minimum qualification of a technical director, the council may, whenever necessary, consider individual practical experiences in supervising construction projects, or relevant academic qualification in a construction-related field.
- Applicants should have done a minimum of two jobs, for each of which the value should not be less than the minimum limit on tender value for the grade and category in which an applicant wishes to be registered.
- All foreign contractors are restricted to register in Grades 1 and 2 subject to meeting the registration requirements.
- All professionals declared must be registered with relevant professional bodies.

#### ENGINEERING INSTITUTE OF ZAMBIA REGISTRATION REQUIREMENTS:

- Any person who is academically qualified as an engineer and wishes to practice his profession in Zambia must apply to the Engineering Registration Board for registration. Such a person should also meet the requirements given below.
- Any company engaged in engineering works in Zambia must register to practice in Zambia.

#### Individual:

- According to the Act, a person shall be eligible to be registered as a practicing engineer in Zambia if:
  - He or she is a fellow or member of the Engineering Institute of Zambia;
  - He or she is resident or has an established office or appointment in Zambia as an engineer; and
  - He or she pays a prescribed fee.

#### Firms:

- Has two or more registered engineers standing for the firm;
- Is a registered engineering company in Zambia or wants to practice engineering in Zambia;
- Pays prescribed fee.

#### © International Trade Centre 2020

ITC encourages reprints and translations for wider dissemination. Short extracts may be freely reproduced, with due acknowledgement, using the suggested citation. For more extensive reprints or translations, please contact ITC, using the online permission request form. http://www.intracen.org/Reproduction-Permission-Request/

Tax guide authored by:



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Partnership for Investment and Growth in Africa (PIGA)

PIGA project implemented by:





PIGA project funded by: