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TAX

# Zambia Fiscal Guide 2013/14

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## INTRODUCTION

# Zambia Fiscal Guide

2013/2014

## Income tax

### Basis of taxation

Tax is levied on a source or deemed source basis. Residents are taxed on domestic-source income and certain types of foreign income. Non-residents are usually taxed on Zambian-sourced income and are subject to a range of withholding taxes (WHT) - some of which may be reduced under a double tax treaty negotiated with the country of residence of the recipient.

### Rates

Resident companies	
Corporation tax:	
Manufacturing and other	35%
Manufacturing of organic and chemical fertilizers	15%
Mining - base metals/ gemstones/ precious metals/ other mining	30%
Hedging income	35%
Export duty on copper & cobalt concentrates	10%
Import of copper blisters	15%
Export duty on all other unprocessed or semi-processed mineral ores	10%
Telecommunication companies	First ZK250 000 – 35% Above ZK250 000 – 40%
Banks	35%
Public benefit organisations	15%
Farming	10%
Import of non-traditional products	15%



Withholding tax (WHT)	Rate
Dividends for individuals and companies	15%
Dividends for companies carrying on mining operation	0%
Profits distribution by branches of foreign companies	15%
Winning from gaming, lotteries and betting (final tax)	20%
Debenture interest paid to Zambian investors in a property company listed on the Lusaka Stock Exchange	0%
Interest for individuals (earned from banks or building societies, savings and deposit accounts), (final tax)	0%
Interest on Treasury Bills for individuals (final tax)	15%
Interest on Treasury Bills (final tax for exempt organization's)	15%
Royalties (non-residents)	20%
WHT on rent (final tax)	10%
Commissions to non-residents (final tax)	20%
Public entertainment fee for non-residents (final tax)	20%
Non-resident contracts (final tax)	20%
Management and consultancy fee for nonresidents	20%

Income tax for resident and non-resident individuals (ZMW)	Tax rate
Up to 36 000	0%
36 000.01 – 45 600	25%
45 600.01 – 70 800	30%
Above 70 800	35%

The rates shown in table 3 above took effect from 1 January 2014. The income tax charge year runs from 1 January to 31 December.

## Capital gains tax

There is no capital gains tax.

## Transfer pricing and thin capitalisation rules

The Income Tax Act (ITA) only provides guidance on the acceptable level of debt to equity ratio for mining companies, which is currently 3:1. However, there is no specific guidance on the acceptable level of debt to equity ratio applicable to other industry sectors.

The transfer pricing legislation is detailed in Section 97A of the ITA, which the Zambia Revenue Authority (ZRA) is enforcing. We understand that the rules will be revised next year to provide for stricter rules and documentation requirements. Based on our understanding of the legislation, the onus is on the taxpayer to ensure that the tax returns submitted are adjusted for any non-arm's length transactions. Management should ensure that there is sufficient evidence to demonstrate that transactions with connected entities are undertaken in line with the arm's length principle.

The existing Anti-Avoidance Provisions have been amended in the ITA and Transfer Pricing Regulations to align it with international best practice. Among other changes, it provides for the Minister of Finance to prescribe transfer pricing documentation rules.

## Inheritances and donations

Estate duty was abolished. There is no gift tax.

## Transaction taxes

Taxable supplies are subject to Value Added Tax (VAT):

- » Standard rate: i.e. 16% that applies on most supplies of goods and services;
- » Zero-rated: i.e. applies on exports of standard-rated goods and some specified goods and services; and
- » Exempt supplies – these are items specifically excluded from liability to VAT such that even when a taxable supplier supplies them, no VAT is charged.

# Transfer duty

Fees are levied on increase of share capital at 2.5%, effective January 1994.

Property transfer tax (PTT) is levied at 10% on the transfer of land, mining rights in the republic, and on the transfer of any shares issued by a company incorporated in Zambia.

Property is defined as:

- Any land (including buildings) situated in Zambia;
- Any shares in a company incorporated in Zambia; and
- A mining right issued under the Mines and Minerals Development Act, 2008, or an interest therein.

# Other taxes

Tax	Basis	Rate
Variable profit tax ( mining)	$Y=30\% + [15\%-(ab/c)]$	0-15%
Mineral royalty	» base metal	6%
	» precious metals	6%
	» gemstones	6%
Advance income tax on commercial imports		6%

# Double tax treaties and reduced rates

The countries that Zambia has signed Double Taxation Agreements (DTA) with include Canada, Denmark, Finland, France, Germany, Holland, India, Ireland, Italy, Japan, Kenya, Mauritius, Norway, Romania, South Africa, Sweden, Tanzania, Uganda, United Kingdom, Yugoslavia and Zimbabwe.

Country	Dividends	Interest	Royalties	Management fees
Canada	15%	15%	15%	0%
Denmark	15%	10%	15%	0%
Finland	5%/15% **	15%	5/15%	0%
France	New DTA yet to be signed. Old one still in force.			
Germany	5%/15% **	10%	10%	0%
India	5%/15% **	10%	10%	10%
Ireland	0%	0%	0%	0%

## Double tax treaties and reduced rates table (continued)

Italy	5%/15% **	10%	10%	0%
Japan	0%	10%	10%	0%
Kenya	0% *	15%	20%	20%
Netherlands	5%/15% **	10%	10%	0%
Norway	15%	10%	15%	0%
Romania	10%	10%	15%	0%
South Africa	15%	15%	20%	20%
Sweden	5%/15% **	10%	10%	0%
Switzerland	5%/15% **	0%	0%	0%
Tanzania	0% *	15%	20%	20%
Uganda	0% *	15%	20%	20%
Mauritius	5%/15% **	10%	5%	0%
United Kingdom	5%/15% **	10%	10%	0%

\* Rate applies if dividend subject to tax in country of recipient.

\*\* The 5% rate applies if the recipient is a company which controls directly or indirectly at least 25 per cent of the voting power in the company paying the dividends.

Since the domestic withholding tax rate for interest and dividends is 15%, the maximum rate suffered by any person is restricted to 15%.

The domestic withholding tax rate for royalties and management fees is 20%, therefore the maximum rate suffered by any person is restricted to 20%.

# Investment information

Zambia is a multi-party democracy and provides a market-oriented liberalized economic environment in a strife-free, multicultural society. The Zambian Government welcomes investors across sectors and the laws relating to investment have provided for incentives aimed specifically at increased levels of investment and international trade, as well as increased domestic economic growth.

## Tax incentives

Capital allowances	2014	2013
Investment/initial allowance on new industrial buildings	10%	10%
Plant & machinery used in manufacturing & tourism	50%	50%
Farm works/improvements & improvement allowance under Multi Facility Economic Zones only	100%	100%

### ZDA Act: tax incentives

The Zambia Development Agency (ZDA) Act of 2006 offers a wide range of incentives in the form of allowances, exemptions & concessions for companies. The tax incentives will only be granted to rural business enterprise or business enterprise operating in a priority sector, a multi-facility economic zone or an industrial park.

### Tax incentives available under the ZDA as provided in the ITA.

1. On the income of a business enterprise operating in a priority sector, declared under the Zambia Development Agency Act, tax shall be charged at:
  - › Zero percent tax on profits for 5 years from the year of commencement of operations of the approved investment;
  - › For years 6 to 8 only 50% of profits are taxable and
  - › In years 9 and 10 only 75% of profits are taxable.
2. Five-year exemption on dividend taxes from the date of commencement of operations.
3. Five-year customs duty exemption on imported machinery and equipment. Import duty exemptions accessed through the ZDA will no longer be granted to new license holders from the midnight of 11 October 2013 but this will exclude current license holders in multi-facility economic zones (MFEZ), industrial parks and business enterprises in rural areas.
4. Improvement allowance of 100% capital expenditure on improvements or upgrading of infrastructure. Only businesses operating in a MFEZ or industrial park are eligible to claim improvement allowance.

Investors who violate provisions under which the ZDA incentives were granted shall face sanctions including revocation of their investment licenses.

## Exchange control\*

Balance of payments regulations are monitored by Bank of Zambia and apply to:

- › A financial service provider licensed under the Banking and Financial Services Act an importer or exporter of goods or services exceeding US\$20 000 or the equivalent in foreign currency;
- › A financial service provider designated under the National Payment Systems Act;
- › A foreign investor; and
- › A local investor who invests outside Zambia.

The Bank of Zambia monitors the outflows and inflows of funds.

In relation to outflows, the bank shall monitor:

- › The value of any imported goods;
- › The value of any imported services, including management services;
- › Any amounts remitted out of the country whether unrequited (gratuitous) or otherwise
- › Loans granted to non-residents;
- › Trade credits from non-residents;
- › Investments made in the form of equity and debt securities outside the country by persons resident in Zambia;
- › Profits or dividends paid to non-residents in respect of investments made in Zambia; and
- › Payments of interest or principal on an investment on private external debt.

In relation to inflows, the bank shall monitor:

- › The value of goods or services exported;
- › Profits or dividends received in respect of investments abroad;
- › Borrowings from non-residents;
- › Investments in the form of equity from abroad; and
- › Investments in the form of debt securities from abroad receipts of both principle and interest on loans to non-residents.

In relation to international transactions, the bank shall monitor the value of:

- › Imported or exported manufacturing services or goods to or from non-residents;
- › The net cost-effect of telecommunication services;
- › International transport, courier and postal services; and
- › International accommodation and other hospitality services to or from non-residents international money transfers in and out of Zambia.

## Prohibition on quoting in foreign currency\*

Statutory Instrument (SI) 33 amended by SI 78 of 2012 provides that

*"... (1) A person shall not -*

- (a) quote, demand pay or receive foreign currency as legal tender for a domestic transaction; or
- (b) engage in any pricing mechanism intended to circumvent these regulations which would have the effect of causing any quoted price to fluctuate from day-to-day by reason of its indexation to a foreign currency..."

Based on the above local transactions have to be carried out in Zambian Kwacha.

**\*Important Note:** Government has revoked SI 55 and SI 33 with effect from 21 March 2014.

Government has stated the reason for the revocation as "challenges being faced in the implementation of the aforesaid SI's." As at the time of going to print, we were awaiting the SI revoking SI 55 and SI 33.

## Minimum wage

On 6 July 2012 the government, issued a new statutory instrument on minimum wages and conditions of employment for protected employees that are engaged in shops, general establishments and domestic service.

# Residence and work permits

An employment permit allows a person to live and work in Zambia. Where the individuals seeking permits are employed by a local company, the application should be made by the employer, on behalf of the employee. The following must be submitted to the immigration department:

- » Completed form 10;
- » Letter of application on the employer's official letterhead;
- » Certified copies of educational and professional certificates;
- » A detailed curriculum vitae;
- » Signed contract of employment;
- » Certified copy of passport;
- » Police clearance report from applicant's country of residence; and
- » Certified copy of a marriage certificate if the applicant is married.

# Annual budget announcement

The budget for the current year 2014 was announced on 11 October 2013.

# Bilateral trade and agreements

Membership-SADC and COMESA.

Zambia is a signatory to the Multilateral Investment Guarantee Agency (MIGA) of the World Bank and other international agreements. This guarantees foreign investment protection in cases of war, strife, disasters, and other disturbances or in cases of expropriation. Zambia has signed bilateral, reciprocal, promotional and protection of investment protocols with number of countries.

# Economic statistics

## Five year forecast summary

	2011	2012	2013	2014
Lending interest rate (av)	18.8%	13.9/%	13.5%	13.6%
Consumer price inflation (av)	8.7%	6.6%	6.2%	6.4%
Exchange rate ZK:US\$ (av)	4.861%	5.179%	5.406%	5.610%
Real GDP growth	6.6%	5.8%	6.3%	8.1%

# Travel Information

Visa requirements	Consultants and other experts that are entering Zambia to conduct business with an organisation can obtain a visa at the port of entry. A 'business' visitor must produce an invitation letter from the inviting institution. Business visits by a single individual cannot exceed 30 days in a 12- month period														
Flights	<ul style="list-style-type: none"> <li>» Air Botswana</li> <li>» Air Malawi</li> <li>» Air Namibia</li> <li>» Emirates</li> <li>» KLM</li> <li>» Airlink</li> <li>» British Airways (ended on 27 Oct 2013)</li> <li>» Ethiopian Airlines</li> <li>» Kenya Airways</li> <li>» Precision Airways</li> <li>» Proflight Zambia</li> <li>» South African Airways</li> <li>» South African Express</li> <li>» TAAG Angola Airlines</li> </ul>														
Inoculations	<p>No immunisations are required by law for entry into Zambia, unless you are from an area where yellow fever is endemic (e.g. Democratic Republic of Congo). In that case, a vaccination certificate is usually required</p> <p>For precautionary purposes the following vaccines should be taken:</p> <table border="0"> <tr> <td>Diphtheria</td> <td>Yes</td> </tr> <tr> <td>Hepatitis A</td> <td>Yes</td> </tr> <tr> <td>Malaria</td> <td>Yes</td> </tr> <tr> <td>Rabies</td> <td>Sometimes</td> </tr> <tr> <td>Tetanus</td> <td>Yes</td> </tr> <tr> <td>Typhoid</td> <td>Yes</td> </tr> <tr> <td>Yellow Fever</td> <td>Yes</td> </tr> </table>	Diphtheria	Yes	Hepatitis A	Yes	Malaria	Yes	Rabies	Sometimes	Tetanus	Yes	Typhoid	Yes	Yellow Fever	Yes
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Hepatitis A	Yes														
Malaria	Yes														
Rabies	Sometimes														
Tetanus	Yes														
Typhoid	Yes														
Yellow Fever	Yes														

# Currency

The Zambian Kwacha (ZMW), this is divided into 100 ngwee.

# Languages

English is the official and commercial language.

# Official holidays

- » 1 January (New Year's Day)
- » 12 March (Youth Day)
- » 18 April (Good Friday)
- » 19 April (Easter Saturday)
- » 20 April (Easter Sunday)
- » 21 April (Easter Monday)
- » 1 May (Labour Day)
- » 25 May (African Freedom Day)
- » 7 July (Heroes' Day)
- » 8 July (Unity Day)
- » 4 August (Farmers' Day)
- » 24 October (Independence Day)
- » 25 December (Christmas Day)

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