PARLIAMENTARY BUDGET OFFICE

# BRIEF ON 2023 MONEY BILLS

NOVEMBER 2022

## BACKGROUND

1.0. The Minister of Finance and National Planning moved a motion urging the House to resolve into the Committee of Ways and Means to consider the raising of the supply on Thursday, 17th November, 2022. The motion was resolved in the affirmative and the Minister presented to the National Assembly the following Money Bills which were referred to the Planning and Budgeting Committee:

i. the Income Tax (Amendment) Bill, NAB No.26 of 2022;
ii. the Customs and Excise (Amendment) Bill, NAB No.27 of 2022;
iii. the Value Added Tax (Amendment) Bill, NAB No.28 of 2022; and
iv. the Property Transfer Tax (Amendment) Bill, NAB No.29 of 2022.

2.0. Therefore, the brief has been prepared in response to the request from the Planning and Budgeting Committee (PBC) for the Parliamentary Budget Office (PBO) to unpack the afore-mentioned Money Bills. Each Bill is discussed in turn here under.

## THE INCOME TAX (AMENDMENT) BILL, NAB NO.26 OF 2022

3.0. The Government needs resources to provide goods and services for the citizen. Most of the revenues which government collects to provide services are from taxes. In this regard, a properly functioning tax system is essential for provision of goods and services and for wealth redistribution.

4.0. Tax policy determines not only how much taxes a country can raise, but also who bears the burden of tax. One of the key tenets of tax policy as enshrined in Article 198 of the Constitution of Zambia, 2016 is that the burden of tax should be fairly shared. This can be achieved through progressive taxation, which requires that the rich bear a proportionately higher tax burden than the poor.

5.0. Tax incentives or tax expenditures are special provisions that allow for exemption from tax. Tax incentives allow for exemption from tax, reduced rate of taxes, tax deductions on expenditure, tax credit, or deferral of tax liability. Tax exemptions take many forms and include tax holidays, zero rating **or** exempting from VAT and exemption from customs rates.

6.0. Like many countries, Zambia provides a wide range of incentives which are targeted towards promoting private sector investment. Sometimes these tax exemptions and incentives are granted with the stated objective of promoting investment to spur economic growth and development.

7.0. Most often, tax incentives between the rich and poor in society are different. Tax incentives on the rich are mostly direct taxes which include reduced corporate tax rates, tax holidays in special economic zones, tax holidays in export processing zones, low capital gains and investment deduction. Mostly the amount of investments required in these areas place the poor out of reach hence the notion that they are aimed for the people in the higher income brackets. On the other hand, taxation relief targeting the poor are indirect taxes. These take the form of **VAT exemptions** and reduced customs duties on basic food stuff, agricultural inputs and medical services which are enjoyed by the rich as well.

8.0. Incentives on direct taxes have a greater impact since they result in a direct increase in disposable income of those who enjoy them, on the other hand tax incentive in respect of indirect taxes in form of exemptions and zero-rating are often broad based and enjoyed by both the poor and the elite. The incentives may also not reach intended beneficiaries especially if provided to the intermediaries such as manufacturers because usually in free market economy the decision to reduce prices due to tax savings is at the discretion of the suppliers.

**Proposed Amendments**

9.0 The Minister has given a number of concessions under Income Tax in the 2023 Budget which will reduce revenue by K1.06 billion. Some of the concessions have been analysed hereunder.

**Figure 1**

| Income Tax Outturn and Projections ( % of GDP) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Year** | **2018** | **2019** | **2020** | **2021** | **2022 proj** | **2023proj** | **2024proj** | **2025proj** |
| **Income Tax** | 5,5 | 5,4 | 6 | 5,4 | 5,6 | 5,5 | 5,5 | 5,4 |

ZRA and IMF

**10.0. Increase the Pay As You Earn (PAYE) tax free threshold for an individual to fifty seven thousand six hundred Kwacha per annum from fifty four thousand six hundred Kwacha per annum, reduce the marginal tax rate for the second income bracket to twenty percent and adjust the income bands accordingly**

***PBO Comment***

*The increase of tax exemption threshold from K4,500 to K4,800 – which translates to 6.7% – and revision of the tax band may affect different sectors of the economy differently. The revision is above the national average monthly earning which is at K 4,393 but below the formal sector average monthly earning which is at K 5,793 as computed by the Zambia Statistical Agency. However, the impact on disposable income might be minimal more especially that the revision is below the food basket.* For example, the JCTR[1] average cost of living for October 2022 was K6,124.99. In addition to this, employees still have to pay 1% of basic salary to NHIMA[2] and 5% (subject to the cap) to NAPSA[3]. However, the amendment has reduced the burden of taxation by

**[1] Jesuit Center for Theologial Reflection**
**[2] National Health Scheme Insurance**
**[3] Natioal PensionScheme Authority**

about three percentage points. Barring any raise in the inflation rate, the increment will also be consistent with the 6 to 8 % end of year inflation target in 2023.

11.0 **Increase tax credits for a person with disability to seven thousand two hundred Kwacha from six thousand Kwacha per annum**

***PBO Comment***
*The provision may provide relief and increase disposable income for the people with disability.*

12.0 **Introduce a tax free threshold on turnover tax and rental income tax of twelve thousand Kwacha per annum**

***PBO Comment***
*Introduction of a threshold on turnover tax and rental income at K12,000 per annum to be taxed at zero percent and the balance at the applicable turnover tax rate and is going to treat all investors equally. This measure is likely to enhance compliance and provide relief to individuals that depend on rental income. However, since this measure is going to apply equally to all investors in the real estate sector, it would be more beneficial to the large-scale investors.*

*Turnover Tax is a tax that is charged on gross sales/turnover (i.e. earnings, income, revenue, takings, yield and proceeds). A person conducting any business with annual sales of K800, 000.00 or less is supposed to pay turnover tax. Any person with annual sales of more than K800, 000.00 is supposed to register for Income Tax.*

*Turnover Tax is calculated at a flat rate of 4% on total sales (turnover).*

**13.0 Reduce the Corporate Income Tax rate to twenty five percent from thirty percent on income earned from value addition to gemstones through a lapidary and jewellery facility**

***PBO Comment***
*Corporate income tax generally has been increasing as shown from the graph below. In the first half of 2022, the contribution of corporate tax was 23.5% of net collection. Although this measure reduces tax revenue, it might stimulate further value addition in the gemstone sub-sector.*

**14.0 Reduce the tax chargeable on income received by a special purpose vehicle from a public private partnership project by twenty percent for the first five years that the public private partnership project makes profit**

***PBO Comment***
*Public Private Partnership unlike direct fiscal expenditure are an alternative to financing infrastructure development. The reduction of the tax chargeable on income*

*received by a special purpose vehicle from a Public-Private-Partnership Project by 20 percent for the first five years that the public private partnership project makes profit is a way to entice prospecting investors.*

*However, the quality of the infrastructure may be a challenge. There is need for proper monitoring at all stages of implementation of projects to ensure infrastructure is delivered at appropriate cost and quality.*

**15.0 Introduce an accelerated rate of wear and tear allowance on a straight line basis not exceeding one hundred percent for an implement, plant and machinery acquired and used under a public private partnership project**

***PBO Comment***

*Although this is intended to encourage private sector participation in Public-Private-Partnerships thereby contribute to narrowing the infrastructure deficit, these incentives generally reduce the much-needed revenues to spend in social sectors. For purposes of understanding, a clarification should be sort on how "accelerated rate" on wear and tear allowance on a "straight line basis" works.*

**16.0 Abolish the two tier taxation system in the telecommunication sector and introduce a corporate income tax rate of thirty five percent**

***PBO Comment***

*Use of multiple rates away from the benchmark complicates tax administration which compromises revenue collection.*

**17.0 Reduce the withholding tax rate from fifteen percent to zero percent on interest income earned on green bonds listed on the securities exchange in the Republic with maturity of at least three years**

***PBO Comment***

*This is a progressive move to encourage investments in climate change projects. This is a relatively new concept in the Zambian context and as such there may be need for sensitsation of the general public on the importance of green bonds.*

**18.0 Reduce the withholding tax rate to zero on interest earned on a life insurance policy**

***PBO Comment***

*This measure may result more people taking up life insurance policies.*

**19.0 Increase the allowable expenditure for the construction of employee housing and the farm improvement allowance to one hundred thousand Kwacha from twenty thousand Kwacha**

***PBO Comment***

*The measure may incentivise employers to invest in housing for workers. However, there may be need to ensure that the quality of housing justifies claiming of the allowance.*

20.0. **Introduce a presumptive tax on income earned from artisanal and small-scale mining at the applicable turnover tax rate based on the gross turnover less mineral royalty paid.**

***PBO Comment***

*Presumptive Taxes are estimates of tax used in dealing with incomes or activities that are hard to tax such as the informal sector. Up to now all companies in the mining sector are subject Corporate Income Tax. By simplifying the tax, it may lead to high compliance and hence more revenue collected from artisanal and small-scale miners.. The turn-over rate is based on the gross turnover less mineral royalty in line with Government policy of deductibility of mineral royalty.*

21.0 **Reduce presumptive tax to fifteen percent from twenty five percent on land based (brick and mortar) betting companies for the 2023 and 2024 charge years**

***PBO Comment***

*The measure is meant to improve compliance. Should compliance improve and reach desired levels consideration could be made to migrate to Company Income Tax as land based (brick and mortar) betting companies appear not be difficult to tax.*

22.0 ***Reduce the withholding tax rate on winnings from gaming and betting to fifteen percent from twenty percent for the 2023 and 2024 charge years***

***PBO Comment***

*This measure is meant to improve compliance and enhance revenue collection.*

23.0 **Abolish the twenty percent withholding tax on reinsurance placed with reinsurers not licensed in the Republic**

***PBO Comment***

*The abolishing of the tax is meant to encourage investment in the sector specifically as relates to reinsurance.*

24.0 **Reduce the withholding tax rate to zero percent from fifteen percent on interest earned by an individual from a loan advance to a person under a savings group**

***PBO Comment***

*The measure is meant to encourage individuals in these groups to access cheap financing which can boast small businesses. However, village banking schemes, which* *are part of the targetd savings groups, appear to be more informal for this measure to effectively apply.*

25.0 **Introduce income tax concessions on income generated from the manufacturing of corn starch for fifteen years**

***PBO Comment***
*The may encourage new investement in the manufacture of corn starch taking into account the comparative advantage Zambia has with maize production. Considering the period involved, there may be need for monitoring of developments in this sub-sector*

26.0 **Extend the turnover tax regime to service providers in the gig economy**

***PBO Comment***
*This measure is meant to improve tax compliance for small businesses in the digital economy and hence boast revenue collection and creativity.*

27.0 **Introduce specific penalties for negligence, wilful default and fraud with respect to presumptive tax on gaming machines and casino games (brick and mortar)**

***PBO Comment***
*The measure is meant to enhance compliance and boast revenue collection.*

28.0 **Introduce the use of an electronic fiscal device and other devices for income tax purposes**

***PBO Comment***
*The measure may increase compliance and boast revenue collection.*

29.0 **Extend commodity royalty to resident to resident transactions**

***PBO Comment***
*The measure is meant to broaden the scope of royalties.*

30.0 The other measures are meant to streamline Income Tax administration and properly align the Principal Act with other pieces of legislation. These measures are:

(i) reduce the minimum age for tax payer identification number registration to sixteen years from eighteen years;
(ii) repeal the approval process of pensions under income tax; and
(iii) exempt a pension approved under the Pension Scheme Regulation Act from income tax.

**THE CUSTOMS AND EXCISE (AMENDMENT) BILL, NAB NO.27 OF 2022**

33.0. Primarily, customs duties are meant to raise Government revenue, protect domestic industries, and correct trade distortions. Customs duty is a trade tax consisting of import and export duty. In Zambia, trade taxes also **include carbon emission tax**. Import duties can also be a form of regulation of foreign trade and policy.

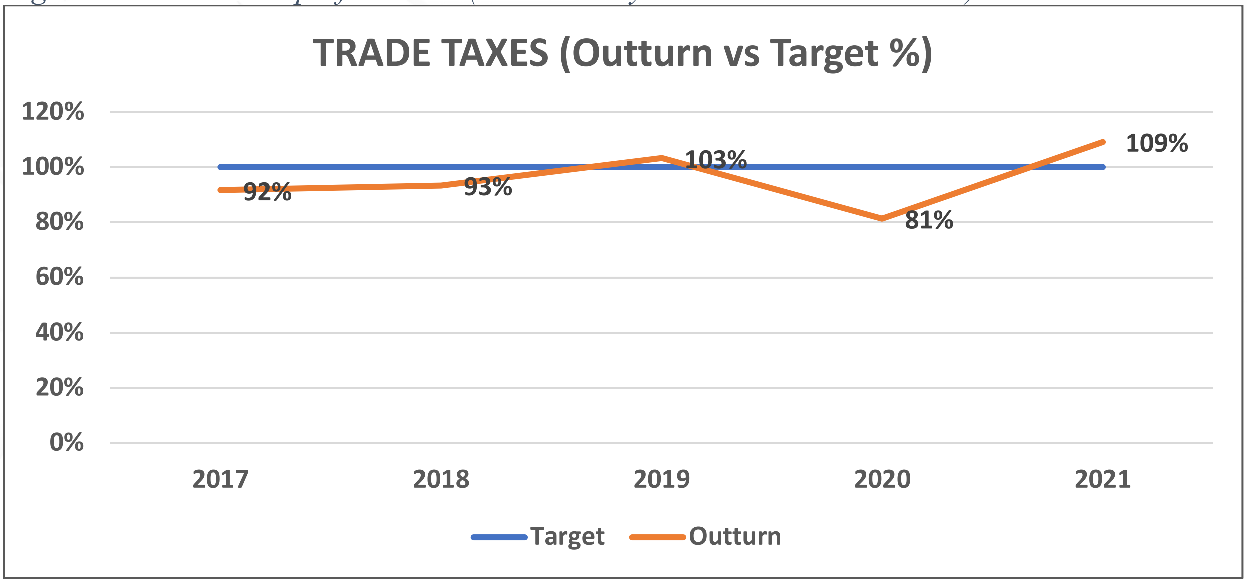
34.0. Excise Duty is a tax on particular goods or products whether imported or produced domestically, imposed at any stage of production or distribution, by reference to weight, strength or quantity of the goods or products, or by reference to their value. Excise duty is imposed on products whose demand is price-inelastic such as cigarettes, diesel, and alcoholic beverages. Excise duty is used as a means of raising revenue and as an instrument of fiscal policy.

35.0. From the proposed amendments, the total revenue loss on concessions under Customs and Excise is estimated at K379.7 million whereas the total gain on revenue generating measures is estimated at K2.2 billion giving rise to a net gain of K1.8 billion.

**PERFORMANCE OF EXCISE AND CUSTOMS DUTIES**

36.0. Shown below is the performance of excise and customs duty for the period 2017 to 2021. It is important to note that carbon emission tax is also accounted for as a trade tax and is regulated by the Customs and Excise Act.

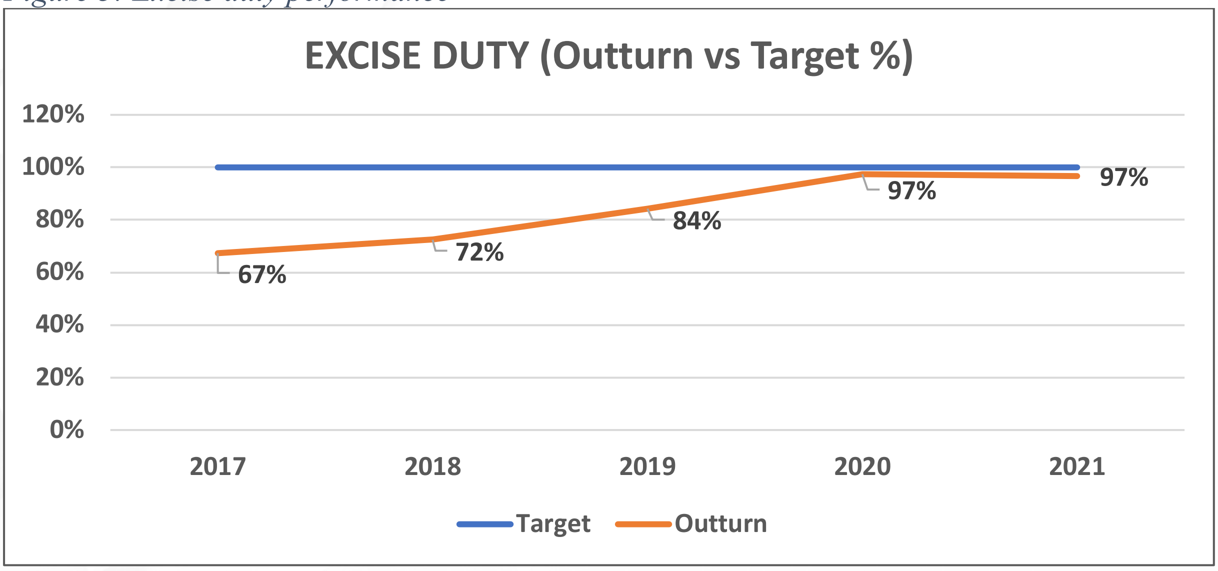
*Figure. 2: Trade taxes performance (customs duty and carbon emission tax)*




Source: Zambia Revenue Authority

37.0. From figure 1, collections from trade taxes, namely customs and carbon emission tax, have been increasing steadily, save for 2020. The under collection in 2020 is largely attributed to the impact of COVID 19 on cross border trade. In 2021, however, ZRA reported an over collection of 109 percent due to easing of COVID 19 restrictions and opening of global trade among others.

*Figure 3: Excise duty performance*




Source: Zambia Revenue Authority

38.0. For the past five years, excise duty collections have been below the target. However, there has been a significant improvement in collections from 67 percent in 2017 to 97 percent in 2021.

*Table 1: Contribution of headline taxes to total tax revenue*

| | 2017 | 2018 | 2019 | 2020 | 2021 | Average |
|---|---|---|---|---|---|---|
| **Excise Duty** | 8.1% | 7.0% | 7.5% | 8.0% | 5.1% | 7.1% |
| **Trade Taxes** | 7.7% | 6.6% | 7.3% | 6.3% | 6.4% | 6.9% |

Source: Zambia Revenue Authority

39.0. Over the past five years, excise duties have contributed an average of 7.1% to total tax revenue whereas trade taxes have contributed an average of 6.9 percent.

**CONCESSIONS**

40.0. The following revenue concessions have been proposed to stimulate growth in the sectors:

41.0. **Agriculture Sector**

(a) Remove 5% Customs Duty on biological control agents used in agriculture.
(b) Suspend to 0%, from 15 percent, Customs Duty applicable on greenhouse plastics used in agriculture up to 31st December 2025.
(c) Suspend Customs Duty on machinery, equipment and articles used in aquaculture to 31st December 2025.
(d) Remove Customs Duty on vegetable seedling growing media used in the production of vegetable seedlings.
(e) Suspend Excise Duty on clear beer made from cassava to 5% from 10% and Excise Duty on clear beer made from malt to 20% from 40 percent for production levels over and above agreed production threshold, for the period 2024-2026.
(f) Remove 5% Customs Duty on selected tree crop seedlings.

***PBO Comment***

*Agriculture is one of the key drivers of economic growth in the Eighth National Development Plan (8NDP). The 2023 Budget concessions towards the sector, with a view of supporting investment into the sector to increase production and productivity, are in line with the 8NDP.*

42.0. **Tourism Sector**

(a) Extend the suspension of Customs Duty on importation of safari vehicles under the tourism sector to 31st December 2025.
(b) Suspend Customs Duty for the tourism sector up to 31st December 2025 on selected capital equipment, machinery, fittings, and fixtures which are not produced locally.

. ***PBO Comment***

*The concessions are intended to revamp tourism after the adverse effects of COVID 19. It is important to note that the suspension of customs duty on the importation of safari vehicles has been active since 1st January 2022. Therefore, it is imperative for the Ministry of Tourism to provide a performance assessment of the concession to assess its effectiveness on a yearly basis. Secondly, to avoid this incentive being an avenue for tax evasion, it is important that Government not only define what constitutes a safari vehicle but also put in place a monitoring mechanism to ensure that only bonafide companies involved in tourism benefit from this concession. The Minister of Finance and National Planning in his Budget Address stated that the revenue loss from the concessions to the Tourism Sector is estimated at K60.4 million in 2023.*

43.0 **Energy Sector**

(a) Remove 15 percent Customs Duty on gas cylinders.
(b) Reduce excise duty to 60 percent from 125 percent on methylated spirit.
(c) Reduce Customs Duty on electric vehicles and electric motorcycles to 15 percent from 30 percent and 25 percent, respectively.

***PBO Comment***

*These measures are meant to contribute to Government's agenda of diversifying the energy mix and containing the high cost of energy.*

44.0. **Environmental Protection**

(a) Suspend Customs Duty on refuse compactor trucks, skip loader vehicles, road sweepers and skip bins to 31st December 2025.
(b) Suspend 5 percent Customs Duty for a period of three years on importation of equipment for baling waste.

***PBO Comment***

*These concessions, if well implemented, are likely to contribute to improved collection, transportation and disposal of waste.*

45.0. **Housing and Infrastructure**

(a) Remove 25 percent Customs Duty on prefabricated buildings up to 31st December 2025.
(b) Remove Customs Duty on plant, machinery and equipment acquired for use in a Public Private Partnership projects.

***PBO Comment***

*These measures are intended to positively contribute towards reducing the infrastructure deficit. In addition, concessions aimed at attracting PPP investments will enable the Government to redirect resources from road infrastructure to other critical areas such as social sectors.*

46.0. **Information Communication Technology (ICT)**

Suspend Customs Duty to 0 percent and 5 percent from 25 percent and 15 percent, respectively, for a period of 3 years, on selected information and communications technology (ICT) and telecommunications equipment.

. ***PBO comment***

*The ICT and telecommunications sector has been heavily incentivised in the 2023 Budget. It is critical that the Government ensures that there is a significant increase in the quality of service provision to ensure value is derived from the tax expenditures.*

47.0. **Arts and Entertainment**

Suspend Customs Duty on selected equipment for the music and film industry for duly registered businesses to 31st December 2025

***PBO Comment***

*It is expected that these concessions will contribute to the growth of the arts and entertaintment industries which currently lag behind other players in the region and on the continent.*

48.0. **Transportation**

Reduce Customs Duty on bicycles to 15 percent from 25 percent.

***PBO Comment***

*This measure is intended to contribute towards lowering of transportation costs.*

49.0. **Financial Services**

Suspend 15 percent Customs Duty on imported Automated Teller Machines (ATMs) for a period of one year.

***PBO Comment***

*This measure is intended to promote financial inclusion and increase access to financial services across the country. As of 2021, the total number of ATMs was 871. The table below shows the disaggregated data according to province. Therefore, to ensure the effectiveness of this concession, it will be important for lawmakers to track whether there will be a more equitable spread of ATMs across the country especially rural provinces.*

**Table 2**

| **Automated Teller Machines in Zambia** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2021** | | | | | | | | | | |
| **Lusaka** | **Central** | **C/belt** | **Eastern** | **Southern** | **Luapula** | **Western** | **Northern** | **N/Western** | **Muchinga** | **Total** |
| 421 | 42 | 205 | 34 | 65 | 14 | 15 | 14 | 47 | 14 | 871 |

Source: Bank of Zambia

## COMPESATING REVENUE MEASURES

50.0. The following compensating revenue measures have been proposed:

(a) reinstate Excise Duty on petrol and diesel;
(b) introduce surtax at the rate of 5% on selected imported PVC Pipes and HDPE pipes which are also locally produced;
(c) increase Carbon Emission Surtax on motor vehicles and motorcycles of various engine capacities by 10%;
(d) introduce Excise Duty at the rate of 15% on various plastic articles;
(e) introduce Selected Goods Surtax at the rate of 5% on imported coal;
(f) increase surtax on imported floor and wall tiles to 20% from 5%;
(g) introduce Excise Duty at the rate of 145% on electronic cigarettes and cartridges of Heading 8543; and
(h) increase specific excise duty on cigarettes to K361 per mille from K355 per mille, as well as on unmanufactured tobacco, tobacco refuse, smoking tobacco whether or not containing tobacco substitutes and water pipe tobacco to K361 per kg from K355 per kilogramme.

***PBO Comment***

*The proposed revenue generating measures will enable the Government to raise much needed revenue amidst tight fiscal space, protect the environment, and promote local infant industries namely tiles and PVC and HDPE pipes. Reinstating Excise Duty on* *petrol and diesel will redirect resources from inefficient subsidies to critical areas such as free education, increased Constituency Development Fund (CDF), and medical equipment. However, this measure has the potential to cause inflationary pressure and increase both the cost of living and the cost of doing business. Lastly, the revised sin-taxes on cigarettes and tobacco will discourage the harmful consumption of these products.*

## THE VALUE ADDED TAX (AMENDMENT) BILL, N.A.B NO.28 OF 2022

***Definition***

51.0 *VAT is an indirect tax levied on the sale of goods and services and it is borne by the final consumer.* All goods and services supplied by a taxable supplier are standard rated unless expressly exempted or zero rated[4]. Businesses supplying goods or services in the "zero-rate" category can claim input tax on business expenses, while those in the "exempt" category cannot claim any input tax on business expenses.

***Value Added Tax Target and Performance***

52.0 *For the period 2017-2022, VAT performed above target save for the year 2020 where only 76 percent was collected representing under collection by 24 percent (Table 1). The underperformance was partly due to the COVID-19 pandemic which disrupted business operations. Further, Government suspended provisions of Statutory Instrument* No. 90 relating to claims of VAT on imported spare parts, lubricants and stationery as a response to the effects and to mitigate the impact of pandemic.

***Table 3: VAT Outturn Against Target***

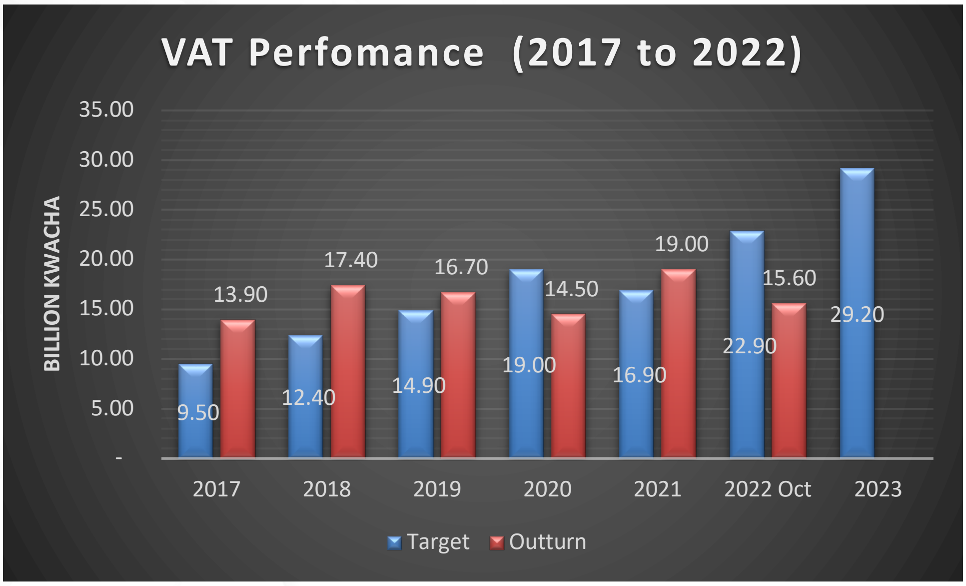
| YEAR | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 Q3 | 2023 |
|---|---|---|---|---|---|---|---|
| **Target** | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| **Outturn** | 146% | 140% | 112% | 76% | 112% | 68% | 0% |

*Source: Zambia Revenue Authority*

53.0 *With regard to targets, VAT targets have consistently been raised from 2017 to 2023 except for the year 2020 where the target was less than the one for the preceding year (figure 1).* K29.2 billion is anticipated to be raised from VAT *in 2023. The 2023 target is* K6.3 billion *above the 2022 target of* K22.9 *billion.* For 2022, only 15.6 billion (collections up to October 2022) has been collected from a target of K22.9 billion representing 68 percent while 32 percent is expected to be collected in the last three months of the year if the target is to be met. VAT has consistently underperformed in the last two quarters making the 2022 target unlikely to be attained if enforcement measures are not strengthened.

[4] **Zambia Revenue Authority VAT Guide**

*Figure 4: Performance of VAT (million) for the period 2017-2022*




**Note: 2022 collections are up to end of October 2022*

***VALUE ADDED TAX REVENUE CONCESSION MEASURES IN THE 2023 BUDGET***

54.0 Concession measures are aimed at giving tax relief to selected sectors. Total revenue loss from VAT concessions is estimated at K3.1 million

The specific concession measures are outlined below.

i. Zero-Rating Order of milk cans, churns and milking machines
ii. Zero-Rating Order of selected ICT and telecommunications equipment;
iii. Value Added Tax Exemption on gaming, betting and lotteries;
iv. VAT Exemption on game animals being imported as breeding stock; and
v. Value Added Tax relief on selected imported equipment and machinery under a Public Private Partnership project.

***PBO Comment***

*VAT concession in the 2023 Budget are intended to support the value-chain in the dairy sub-sector, promote growth of the livestock subsector and stimulate investment in the infrastructure and Information and Communications Technology (ICT) sectors. The measures are consistent with the aspirations of the Eight National Development Plan (8NDP) whose main focus is economic transformation and job creation driven by agriculture among others and economic enablers such as infrastructure and technology.*

**55.0 Compensating Measures**

VAT compensating measures are estimated at K6.8 billion. Specific measures include the following:

i. standard rate the supply of petrol and diesel;
ii. standard rate selected energy saving appliances and equipment;
iii. standard rate goods imported by the President that are subject to VAT; and
iv. amend the definition of "commercial property"

## 56.0 Object of the Bill

The object of this Bill is to amend the Value Added Tax Act, so as to:

a) revise the definition of "commercial property";
b) provide clarity on crediting of input tax;
c) revise the penalty for tax evasion; and
d) provide for matters connected with, or incidental to, the foregoing.

### 56.1 Revise the definition of "commercial property"

***PBO Comment***
*The current definition in the Value Added Tax Act limits commercial property to a physical building. The measure is progressive and is intended to broaden the VAT base by subjecting land designated or sold for commercial purposes VAT at standard rate.*

*The Committee may wish to interrogate the possible risks that may arise from this measure such as buyers claiming that the land being purchased is for non-commercial use. Further, the Committee may wish to enquire what verification measures will be in place for purposes of confirming that the land purchased is utilised for non- commercial purposes.*

*Despite the underperformance of VAT in 2022, the Government has increased the 2023 VAT target by K6.3 billion from K22.9 billion in 2022 to K29.2 billion. Meanwhile, the net gain from the concessional and compensating measures (K3.7 million) falls short of the increase in VAT estimates between the two years (K6.3 billion). The Committee may wish to further interrogate the K2.6 billion variance.*

*The outturn of VAT in 2022 (up to October) vis-à-vis the increased target in 2023 threatens the credibility of the VAT target and overall tax revenue target.*

### 56.2 Provide clarity on crediting of input tax

***PBO Comment***
*The current provision under Section 18 of the VAT Act has been said to be ambiguous and often misinterpreted.*

*The notable difference between Section 18 of the VAT Act and the provision in Clause 4 of the Bill is the phrase **"to the date of submitting the return".** The intention of the Clause is to ringfence the period within which a tax payer can make a claim on input VAT.*

*The current provision under Section 18 of the VAT Act is said to be ambiguous and has been misinterpreted by both tax payers and audit firms. The lack of clarity arising from Section 18 of the Act may have been a contributing factor in an audit query (irregular VAT refund) in the Report of the Auditor General on the Accounts of the Republic for the Financial Year Ending 31st December 2021 involving K3, 562,136,950..*

### 56.3 Revise the penalty for tax evasion

***PBO Comment***
*The measure is intended to increase the penalty to 300,000 penalty units from 30,000 penalty units. The measure will discourage tax evasion but also broaden the tax base from offenders.*

*The Committee may wish to enquire what other measures Zambia Revenue Authority is implementing in addressing the act of tax evasion besides the punitive measures.*

## PROPERTY TRANSFER TAX (AMENDMENT) BILL NAB NO. 29 OF 2022

57.1 This is a tax applicable when property is transferred from one person to another. Property is defined in the Principal Act.

The proposed measures in the Bill are:

(i) reduce the property transfer rate on the transfer of a mining right for an exploration licence to 5% from 10%;
(ii) provide clarity on a share in the mining sector to include an interest in a mining right and an interest in a mineral processing licence;
(iii) provide clarity on the realised value in respect of the computation of property transfer tax on an indirect transfer of shares as a proportion of the value of the company incorporated in the Republic;
(iv) exempt the surrender or forfeiture of shares from property transfer tax; and
(v) permit the use of the actual price received in determining the realised value for the disposal of foreclosed property by a financial service provider.

***PBO Comments***
*This is minor tax in terms of collections and contribution to total tax revenue and is mainly reported under Witholding Tax and Other taxes. However, even if it is a minor tax, the transfer*

*of property – individual transaction – may involve big companies and so the amounts accruing to individual companies may be high.*

*The Minister proposed to increase property transfer tax rate to 7.5% from 5% in the Budget Speech as a revenue generating measure. However, the Bill proposes to reduce the property transfer rate on the transfer of mining right for an exploration licence to 5% from 10% instead of 7.5% from 10% as earlier indicated in the Speech. The Committee may seek clarification.*