



REPUBLIC OF ZAMBIA

REPORT

OF THE

PLANNING AND BUDGETING COMMITTEE

ON

THE INCOME TAX (AMENDMENT) BILL, N.A.B. NO. 29 OF 2023

FOR THE

THIRD SESSION OF THE THIRTEENTH NATIONAL ASSEMBLY

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FOREWORD

Honourable Madam Speaker, the Committee on Planning and Budgeting has the honour to present its report on the Income Tax (Amendment) Bill, N.A.B. No. 29 of 2023, for the Third Session of the Thirteenth National Assembly. The Committee is mandated to consider Money Bills referred to it by the House, as per Standing Order 195(5), of the National Assembly Standing Orders, 2021.

The Committee held six meetings to consider the Bill. In order to gain insight into the ramifications of the Bill, the Committee sought both written and oral submissions from various stakeholders. The list of the stakeholders is at Appendix II of the Report.

The Report is in three Parts. Part I contains the salient provisions of the Bill. Part II highlights concerns raised by stakeholders, while Part III contains the Committee's observations and recommendations.

The Committee wishes to pay tribute to all stakeholders who appeared before it and tendered both oral and written submissions. It further wishes to thank you, Madam Speaker, for affording it an opportunity to interrogate the Income Tax (Amendment) Bill, N.A.B. No. 29 of 2023. The Committee also appreciates the services rendered by the Office of the Clerk of the National Assembly during its deliberations.

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Mr Fred CChaatila, MP
CHAIRPERSON

December, 2023
LUSAKA

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1.0 MEMBERSHIP OF THE COMMITTEE

The Committee consisted of Mr Fred C Chaatila, MP (Chairperson); Ms Brenda Nyirenda, MP (Vice-Chairperson); Mr David Mabumba, MP; Mr Kalalwe Mukosa, MP; Mr Koonwa Simunji, MP; Mr Machila Jamba, MP; Mr Jeffrey Mulebwa, MP; Mr Anthony C Mumba, MP; Mr Mayungo Simushi, MP; and Mr Mwabashike Nkulukusa, MP.

2.0 BACKGROUND

The rationale behind the introduction of the Income Tax (Amendment) Bill, N.A.B. No. 29 arose out of the 2024 National Budget speech by the Minister of Finance and National Planning, delivered to the nation under the theme “Unlocking Economic Potential”. Given the rise in the cost of living, it was imperative for Government to provide some relief to the workers and to some productive sectors in the economy.

Further, the National Budget provided the policy framework to promote economic growth through enhanced private sector investment, increased production and productivity, improved public service delivery and enhanced trade through various proposed tax and non-tax measures.

To actualise the above measures, one of the pieces of legislation to be reviewed was the *Income Tax Act, Chapter 323* of the Laws of Zambia, whose purpose was to provide for the taxation of incomes and matters connected thereto. The Income Tax (Amendment) Bill N.A.B. No 29, 2023, therefore, sought to amend the principal Act so as to give legal effect to some of the tax measures pronounced in the 2024 Budget Address.

3.0 OBJECT OF THE BILL

The object of the Bill was to amend the Income Tax Act so as to:

- (a) increase the Pay-As-You-Earn tax free threshold for individuals to sixty-one thousand two hundred Kwacha per annum from fifty-seven thousand six hundred Kwacha per annum, reduce the top-marginal tax rate to thirty-seven percent, and adjust the income bands accordingly;
- (b) introduce an electronic invoicing system to ensure income tax compliance;
- (c) increase the tax concession for businesses in a rural area to one-fifth from one-seventh of the applicable corporate income tax rate for the first five years in operation;
- (d) introduce accelerated depreciation of up to 100 per cent on any new implement, plant or machinery for developers in a special economic zone;
- (e) introduce withholding tax at fifteen percent on discount income earned from Government Securities, which are issued at a discount from face value;
- (f) introduce a five-year tax holiday on profits from local producers of cotton seed or ginning of cotton;
- (g) introduce a ten-year tax holiday on profit made from spinning of cotton and weaving of thread; and
- (h) provide for matters connected with, or incidental to, the foregoing.

PART I

4.0 PROVISIONS OF THE BILL

The salient provisions of the Bill were as set out hereunder.

Clause 2 – Amendment of section 2

This clause sought to amend section 2(1) of the principal Act by deleting the definition of “electronic fiscal device” and provided for the new applicable phrase of an “electronic invoicing system”, which sought to widen the scope of invoicing systems under income tax. The clause further deleted and redefined “rural enterprise” so as to extend the relief on income tax to all sectors except mining operations and mineral processing. The clause further defined other key phrases used in the Bill in order to make the law easy to understand by those tasked to implement and interpret the law.

Clause 3 – Amendment of section 45

This clause sought to amend section 45 by mandating a person or a person carrying on a business in partnership to obtain a taxpayer identification number for that person or partnership, as the case might be, from the Authority. The clause further required a person or a partnership to register with the Authority for an appropriate tax type within a specified period.

Clause 4 – Amendment of section 48

This clause sought to amend section 48 of the principal Act by empowering the Commissioner General to request a person to furnish the Commissioner General information relating to the affairs of that person or any other person that the Commissioner General determined necessary for the purposes of the Act.

Clause 5–Amendment of section 55B

This clause sought to amend section 55 (B) by replacing the use of an electronic fiscal device for recording sales for income tax purposes with an electronic invoicing system. The clause further inserted a new subsection, which sought to empower the Commissioner General to exempt a person or partnership, or a category of persons or partnerships, from using the electronic invoicing system. The amendment was made so as to enhance tax compliance.

Clause 6– Amendment of section 56

Clause 6 sought to amend section 56 of the principal Act by adding a new subsection (1A), which required audited accounts to be attached to tax returns for individuals the Authority had designated as large taxpayers.

Clause 7–Amendment of section 82A

The clause sought to amend section 82A by deleting and replacing subsection (11), which extended the application of the subsection to similar financial instruments.

Clause 8– Amendment of section 97A

This clause sought to amend section 97A by inserting a new subsection, which provided clarity on what would be considered as the date of assessment under subsection (11A), where a decision under the section was appealed against or was before a court.

Clause 9– Amendment of section 100

This clause sought to insert a new subparagraph, which set out the penalty that was to be imposed on a person who negligently, fraudulently or through wilful default submitted an incorrect balance sheet, account or other document in relation to artisanal mining.

Clause 10– Amendment of fifth schedule

Clause 10 sought to amend paragraph 10 of the fifth schedule by extending, to a developer in a special economic zone, the discretion to claim on a straight-line basis, wear and tear at an accelerated rate, not exceeding 100 per cent in respect of any new implement, plant or machinery acquired and used by the business for the purposes of that business.

Clause 11 – Amendment of charging schedule

This clause sought to amend the charging schedule in paragraph 2(1) by increasing the exemption threshold from fifty-seven thousand six hundred Kwacha to sixty-one thousand two hundred Kwacha, reducing the top-marginal tax rate to thirty-seven percent, and adjusting the income bands, accordingly.

Additionally, the clause sought to amend paragraph 5 by increasing the tax concession for businesses in a rural area to 20 per cent of the applicable corporate income tax rate for the first five years in operation. Furthermore, the clause sought to amend paragraph 5 by introducing a five-year tax holiday on profits from local producers of cotton seed and ginning of cotton, and a ten-year tax holiday on profit made from spinning of cotton and weaving of thread.

PART II

5.0 CONCERNS RAISED BY STAKEHOLDERS

Stakeholders who appeared before the Committee supported the Bill but in doing so, they also raised concerns outlined below.

Clause 2 – Amendment of section 2

Stakeholders observed that the electronic invoicing system aimed at putting an end to the use of fake invoices in Value Added Tax (VAT) refund claims to ensure only eligible entities made deduction claims. They stated that as the Zambia Revenue Authority made the transition, there was need to address the concerns that taxpayers had historically expressed with regard to the use of Electronic Fiscal Devices (EFDs). In this regard, they were of the view that the roll out of electronic invoicing should be implemented in a phased approach and incorporate a trial period with the date of full commencement to be determined and

communicated by the Commissioner General. This would allow for any technical challenges experienced during trial to be addressed prior to commencement.

Clause 11- Amendment of Charging Schedule

Stakeholders observed that the Bill proposed an increase in the Pay-As-You-Earn (PAYE) tax-free threshold for individuals to sixty-one thousand two hundred kwacha (K61,200) per annum from fifty-seven thousand six hundred kwacha (K57,600) per annum. Additionally, it proposed a reduction in the top-marginal tax rate to 37 percent, with adjustments in income bands as follows:

- i. 61,200 – 85,200– 20 percent
- ii. 85,200 – 110,400– 30 percent
- iii. 110,400 or more– 37 percent

Current Regime		Proposed Regime	
Income Band (K, per month)	Tax Rate	Income Band (K, per month)	Tax Rate
K0 – K4800	0%	K0 – K5100	0%
K4,801 – K6,800	20%	K5,101 – K7,100	20%
K6,801 – K8,900	30%	K7,101 – K9,200	30%
Above K8,900	37.5%	Above K9,200	37%

The adjustments on the first three tax bands provided a small relief to taxpayers who earned below ZMK9,200 who would realise a surplus of about only ZMK 300 in the proposed tax band. However, the reduced tax rate by 0.5 per cent in the last band from 37.5 percent to 37 per cent still placed a higher tax burden on those who earned slightly above ZMK9,200. In this regard, they were of the view that the fourth tier be rated at 35 per cent from ZMK 9,200 – ZMK11,300 in light of the high cost of living, which was now in excess of ZMK9,000. They, further, proposed that a fifth tier should be introduced to cater for above ZMK11,300 at 37 per cent. These changes would increase disposable income.

PART III

6.0 COMMITTEE’S OBSERVATIONS AND RECOMMENDATIONS

Having considered the concerns raised by stakeholders, the Committee makes the observations and recommendations as outlined below.

Clause 2– Amendment of section 2

The Committee observes that despite the Bill mentioning the introduction of the electronic invoicing system, it does not explain how the informal sector will be captured using the electronic invoicing system. In view of the foregoing, the Committee recommends that the Bill should define the criterion to be used to include the informal sector businesses within the scope of the electronic invoicing system. The Zambia Revenue Authority should consider

factors such as transaction volume, business size, and other relevant parameters to determine eligibility.

Additionally, The Committee observes that electronic invoicing (e-invoicing) typically requires internet connectivity, at least at some point in the process. In this regard, the Committee recommends that the government should prioritise the allocation of resources for the expansion and improvement of broadband infrastructure to ensure reliable and high-speed internet connectivity nationwide. Adequate internet access is crucial for the seamless transmission and receipt of electronic invoices. Further, the Government should provide financial incentives, such as tax credits or deductions, to businesses that adopt electronic invoicing. Financial incentives can serve as a powerful motivator for organisations to transition from traditional paper-based systems to digital processes.

Clause 7-Amendment of Section 82A

The Committee observes that Section 82A (11) of the Principal Act provides for withholding tax on discount income earned from Treasury Bills only which are issued at a discount from face value. The Committee is of the view that Withholding taxes directly reduce the income received by investors. A 15 per cent withholding tax on discount income means investors retain only 85 per cent of their earnings, leading to a lower effective yield on their investments. In this regard, the Committee recommends that the Government should ensure that there is clear communication on the introduction of the withholding tax, its purpose, and the expected impact. Transparency helps investors understand the rationale behind the tax and reduces uncertainty in the market. Additionally, the Government should consider a phased or gradual implementation of the withholding tax to allow investors and the market to adjust.

Clause 11-Amendment of the Charging Schedule

The Committee notes that paragraph (5) of the Charging Schedule is amended by providing a tax holiday to the cotton value chain.

The Committee is of the view that the Bill does not specify what happens after the completion of the tax holidays on profits from local producers in the event that they change the name of the company to avoid paying taxes. In this regard, the Committee recommends that the Bill should explicitly address situations where a local producer changes the name of the company after the initial completion of the tax holidays. The Government should introduce restrictions on frequent name changes or modifications to prevent companies from evading taxes simply by altering their names. They should further implement a system that tracks changes in ownership and company names for tax purposes. Lastly, the Government should provide guidelines on how such changes are to be handled in terms of tax obligations so as to ensure that the transition does not negatively impact the countries tax status.

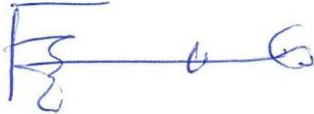
7.0 GENERAL RECOMMENDATIONS

The Committee notes that there are no specific measures introduced relating to the Information Communication Technology (ICT) sector in the Bill. However, Zambia has the highest corporate tax at 35 percent applied on telecommunication companies, while other sectors especially those related to agriculture have a corporate tax burden as low as 10 per cent. In view of foregoing, the Committee recommends that consideration be given to standardise corporate income tax to 30 per cent similar to the other sectors in the economy.

8.0 CONCLUSION

The Committee supports the Income Tax (Amendment) Bill, N.A.B. No. 29 of 2023, as it will bring into effect some of the taxation measures contained in the 2024 National Budget. It will also enhance tax administration through improved tax incentives, management, enforcement and compliance. This will ultimately raise revenue for the Republic. This Bill is, therefore, progressive.

We have the honour to be, Madam Speaker, the Committee on Planning and Budgeting mandated to consider the Income Tax (Amendment) Bill, N.A.B. No. 29 of 2023.

A handwritten signature in blue ink, appearing to read 'Fred C Chaatila', with a horizontal line extending to the right and a small flourish at the end.

Mr Fred C Chaatila, MP
CHAIRPERSON

December, 2023
LUSAKA

APPENDIX I LIST OF NATIONAL ASSEMBLY OFFICIALS

Mr Stephen Chiwota, Director (Financial Committees)
Mrs Angela M Banda, Acting Deputy Director (Financial Committees)
Ms Chitalu R Mulenga, Senior Committee Clerk (FC2)
Mr Emmanuel Bwalya, Committee Clerk
Mrs Racheal M Kanyumbu, Administrative Assistant
Mr Danny Lupiya, Committee Assistant
Mr Muyembi Kantumoya, Parliamentary Messenger

APPENDIX II LIST OF WITNESSES

Anti-Corruption Commission
Bank of Zambia
Capital Markets Association
Consumer Unity Trust Society
Financial Sector Deepening Zambia
Minister of Finance and National Planning
Ministry of Justice
Zambia Institute for Policy Analysis and Research
Zambia Revenue Authority
Zambia Institute of Chartered Accountants
Zambia Information and Communication Technology