



**REPORT**

**OF THE**

**PLANNING AND BUDGETING COMMITTEE**

**ON THE**

**VALUE ADDED TAX (AMENDMENT) BILL, N.A.B. No. 42 OF 2021**

**FOR THE**

**FIRST SESSION OF THE THIRTEENTH NATIONAL ASSEMBLY**

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# **REPORT OF THE PLANNING AND BUDGETING COMMITTEE ON THE VALUE ADDED (AMENDMENT) BILL, N.A.B No 43 OF 2021, FOR THE FIRST SESSION OF THE THIRTEENTH NATIONAL ASSEMBLY**

The Committee consisted of:

Mr F C Chaatila, MP, (Chairperson); Ms J C Chisenga, MP (Vice-Chairperson); Mr M B E Sampa, MP; Mr M Jamba, MP; Amb. R K Kalimi, MP; Mr K Simunji, MP; Mr B Kambita, MP; Mr G Chonde, MP; Mr D Mung'andu, MP; and Ms M C Chonya, MP.

The Honourable Madam Speaker  
National Assembly  
Parliament Buildings  
P O Box 31299  
**LUSAKA**

Madam

The Committee has the honour to present its Report on the Value Added Tax (Amendment) Bill, N.A.B No. 42 of 2021 referred to it by the House on Friday, 10<sup>th</sup> December, 2021.

## **2. FUNCTIONS OF THE COMMITTEE**

In addition to any other duties conferred upon it by the Honourable Madam Speaker, or any other Order of the House, the Committee is mandated to examine Money Bills, including the Excess Expenditure and Supplementary Appropriation Bills.

## **3. MEETINGS OF THE COMMITTEE**

The Committee held six meetings to consider the Value Added Tax (Amendment) Bill, N.A.B No. 42 of 2021.

## **4. PROCEDURE ADOPTED BY THE COMMITTEE**

In order to acquaint itself with the ramifications of the Bill, the Committee sought both written and oral submissions from different stakeholders and examined in detail all submissions presented to it. The list of witnesses who submitted comments and appeared before the Committee is at Appendix II of this Report.

## **5. BACKGROUND**

The Bill sought to amend the Value Added Tax Act Chapter 331 of the Laws of Zambia so as to provide clarity on the use of an electronic fiscal device to record each sale or transaction. The Bill further sought to revise the penalty for a taxable

supplier for failure to issue a tax invoice and provide clarity on documents to be submitted by a supplier in support of imported goods.

## **6. OBJECTS OF THE BILL**

The objects of the Bill were to amend the Value Added Tax Act, Chapter 331 of the Laws of Zambia so as to —

- (a) revise the penalty for a taxable supplier for failure to issue a tax invoice;
- (b) provide clarity on the use of an electronic fiscal device to record each daily sale;
- (c) provide for an upward adjustment of the penalty for a taxable supplier for failure to use an electronic fiscal device;
- (d) provide clarity on documents to be submitted by a taxable supplier in support of imported goods; and
- (e) provide for matters connected with, or incidental to, the foregoing.

## **7. SALIENT PROVISIONS OF THE BILL**

The salient provisions of the the Value Added Tax (Amendment) BILL, N.A.B No. 42, are as set out hereunder.

### **Clause 1 – Short title and Commencement**

The clause provided for the citation of the Act once enacted and the commencement date of the Act, which shall be 1<sup>st</sup> January, 2022.

### **Clause 2 – Amendment of section 7**

The clause sought to amend section 7(5) of the principal Act by providing a graduated penalty for failure to issue a tax invoice so as to avoid arbitrary imposition of fines for the offence.

### **Clause 3 – Amendment of section 7A**

The clause sought to amend section 7(A) of the principal Act by providing clarity on the requirement by a taxable supplier to record each sale or transaction. The amendment further sought to increase the penalty for failure by a taxable supplier to use an electronic fiscal device to record each sale or transaction.

### **Clause 4 – Amendment of section 18**

The clause sought to amend section 18(3)(c) of the principal Act by providing clarity that the import bills of entry as well as other supporting documents, as prescribed under the Commissioner General's rules were mandatory.

## **8. CONCERNS BY STAKEHOLDERS**

Most stakeholders who appeared before the Committee supported the Bill but raised various concerns as outlined below.

i. **Clause 2 – Amendment of section 7**

Under clause 2 which provided for the revision of the penalty for a taxable supplier for failure to issue a tax invoice, stakeholders noted that if the measure was successfully implemented, it would raise the price of tax avoidance, thereby providing a strong deterrent to tax avoidance and eventually increase tax collections. They however, proposed that Zambia Revenue Authority should be given more resources to increase monitoring of VAT registered suppliers and strengthen the audit process, where the risk of fraud was relatively high.

ii. **Clause 3 – Amendment of section 7A**

Stakeholders welcomed the measure under clause 3 as it intended to provide clarity that a taxable supplier was required to use an electronic fiscal device to record each sales transaction for any supply. However, they noted that the devices were not readily available and there were still challenges with the software solutions particularly for taxpayers that operated complex accounting software such as Systems Applications and Product (SAP). In view of these challenges, they proposed that the Bill should be amended to grant discretion to the Commissioner General to determine the effective date of implementing the measure beyond the proposed 1<sup>st</sup> January, 2022 in the Bill.

iii. **Clause 4 – Amendment of section 18**

Stakeholders expressed concern that clause 4 which provided clarity that the import bills of entry as well as other supporting documents were mandatory would potentially increase the number of documents required by the Commissioner-General on importation and may impose additional administrative burdens on importers.

## **9. OTHER CONCERNS**

- i. Stakeholders raised concern that no VAT amendments had been referred to in the amendment relating to the Insurance sector, thus it was not clear if the Insurance premium would be applicable for 2022 or VAT would apply.
- ii. Stakeholders generally commended the Government for continuously adopting measures and instituting amendments to the administration of the VAT. They were, however, of the view that the Government should reform the entire administration of the VAT and realign it to the initial objective of supporting value-adding manufacturing activities when it was adopted in 1994.
- iii. Stakeholders further noted that VAT had continued to be a drain on the Treasury and was the major driver of the domestic debt in the form of VAT refund arrears. They observed that over the years, the Government had extended the claiming of VAT refunds to non-value-adding production activities in the economy such as primary agriculture and mining. Further, zero-rating had been extended to the exportation of such goods. They

therefore, recommended that the zero-rating of export goods be restricted to value-added manufactured goods from the manufacturing industries.

- iv. Stakeholders submitted that the rollout of EFD technology did not guarantee that taxable suppliers would report every transaction. Firms could opt to complete a sale without issuing an invoice generated by an EFD. Further, sellers could collude with consumers by offering to lower the price if the transaction was completed without an invoice. These forms of tax avoidance were not addressed by EFDs.

## **10. COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS**

- i. The Committee observes that clause 3 of the Bill which provides for the use of an electronic fiscal device to record each transaction as a sale as opposed to a daily summary record is well intended and will enhance compliance levels, improve VAT collections and contribute to domestic resource mobilisation.

The Committee is, however, concerned that implementation of the measure may not be practically possible due to the shortage of electronic fiscal devices and especially existing challenges with compatibility of the software solutions being experienced by VAT taxable suppliers who already possess the device.

Cognisant that the Zambia Revenue Authority is in a process of accrediting independent suppliers to improve the supply of the devices to VAT taxable suppliers, the Committee recommends that:

- a) the Bill should grant discretion to the Commissioner General to determine the effective date of implementing the measure in Clause 3 in view of the various challenges relating to access to the electronic fiscal devices and accounting software complexities;
  - b) ZRA should expedite the process of accrediting suppliers of electronic fiscal devices in order for the measure in clause 3 to be fully enforceable and ultimately secure revenue; and
  - c) ZRA should conduct robust sensitisation to tax payers to educate them on the various measures in the Bill and the respective penalties for failure to implement.
- ii. The Committee generally observes that the biggest challenge of VAT is the increased complexity in its administration which largely contributes to tax evasion through VAT fraud.

To limit revenue leakages, the Committee recommends that the Government should consider undertaking a comprehensive VAT reform and ensure that the tax, as much as possible, supports value-adding manufacturing activities as it was envisaged when the tax was introduced. As an immediate measure,

the Committee recommends that ZRA should scale up its enforcement and tax payer education in order to improve tax compliance and ultimately increase revenue collection.

## **11. CONCLUSION**

The Committee notes that, the measures in the Value Added Tax (Amendment) Bill, No. 42 of 2021 are aimed at, among other things, making the use of the electronic fiscal device to record each sale transaction for any supply on a daily basis. With this measure, the taxpayers will not have the latitude to record their sales in intervals or as block figures. Consequently, this will improve VAT collections and contribute to domestic resource mobilisation.

The Committee wishes to pay tribute to all stakeholders who appeared before it and tendered both oral and written submissions. It also wishes to thank you, Madam Speaker and the Office of the Clerk of the National Assembly for the guidance and support rendered during its deliberations.

We have the honour to be, Madam, the Planning and Budgeting Committee mandated to consider the Value Added Tax (Amendment) Bill, N. A.B 42 of 2021.

Mr F C Chaatila, MP  
**(Chairperson)**

Ms J C Chisenga, MP  
**(Vice Chairperson)**

Mr M B E Sampa, MP  
**(Member)**

Mr M Jamba, MP  
**(Member)**

Amb. R K Kalimi, MP  
**(Member)**

Mr K Simunji, MP  
**(Member)**

Mr B Kambita, MP  
**(Member)**

Mr G Chonde, MP  
**(Member)**



Mr D Mung'andu, MP  
**(Member)**

Ms M C Chonya, MP  
**Member**

A handwritten signature in black ink, appearing to be 'F C Chaatila', written in a cursive style.

Mr F C Chaatila, MP  
**CHAIRPERSON**

December, 2021  
**LUSAKA**

## **APPENDIX I – List of National Assembly Officials**

Mr F Kateshi, Principal Clerk – Parliamentary Budget Office  
Mr F Nabulyato, Deputy Principal Clerk of Committees (SC)  
Mr H Mulenga, Deputy Principal Clerk of Committees (FC)  
Mr F Chikambwe, Revenue Analyst  
Mrs C K Mumba, Senior Committee Clerk (FC)  
Mrs E K Zgambo, Committee Clerk  
Mrs M E Z Banda, Committee Clerk  
Mr F Chikambwe, Revenue Analyst  
Ms L Chilala, Typist  
Mr D Lupiya, Committee Assistant

## **APPENDIX II – LIST OF WITNESSES**

Ministry of Finance and National Planning  
Ministry of Justice  
Ministry of Commerce, Trade and Industry  
Ministry of Mines and Minerals Development  
Ministry of Agriculture  
Bank of Zambia  
Bankers Association of Zambia  
Zambia Revenue Authority  
National Breweries  
Zambia Chamber of Mines  
Zambia Association of Manufacturers (ZAM)  
National Economic Advisory Council (NEAC)  
Zambia Institute of Chartered Accounts (ZICA)  
Zambia Institute of Policy Analysis and Research