

**REPORT OF THE COMMITTEE ON ESTIMATES ON THE VALUE ADDED TAX (AMENDMENT) BILL, N.A.B NO. 21 OF 2015, FOR THE FIFTH SESSION OF THE ELEVENTH NATIONAL ASSEMBLY APPOINTED ON WEDNESDAY, 23<sup>RD</sup> SEPTEMBER, 2015**

Consisting of:

Mr H H Hamududu, MP (Chairperson); Mr E M Sing'ombe, MP; Mrs I M Mphande, MP; Mr R L Mpundu, MP; Mr G K Mwamba, MP; Mr B M Ntundu, MP; Mr R P Mtolo, MP; Mr P Phiri, MP; and Dr G L Scott, MP.

The composition of the Committee changed when Mr J Shuma, MP was appointed to the Committee following the appointment of Mr R L Mpundu, MP, to a ministerial position.

The Honourable Mr Speaker  
National Assembly  
Parliament Buildings  
**LUSAKA**

Sir,

Your Committee has the honour to present its Report on the Value Added Tax (Amendment) Bill, N.A.B No. 21 of 2015, referred to it by the House on 5<sup>th</sup> November, 2015.

**Functions of the Committee**

2. In addition to any other duties conferred upon it by the Honourable Mr Speaker, or any other order of the House, your Committee is mandated to consider any Bills that may be referred to it by the House.

**Meetings of the Committee**

3. Your Committee held seven meetings to consider the Value Added Tax (Amendment) Bill, N.A.B No. 21 of 2015, referred to it by the House.

**Procedure adopted by the Committee**

4. In order to acquaint itself with the Bill, your Committee requested written and oral submissions from various relevant stakeholders.

## **Object of the Value Added Tax (Amendment) Bill, N.A.B No. 21 of 2015**

5. The object of the Bill is to amend the *Value Added Tax Act* so as to:

- (a) prohibit companies dealing only in exempt supplies from being eligible to be treated as part of a recognised group of companies;*
- (b) provide for confidentiality of taxpayers' information;*
- (c) provide for the use of fiscal cash registers or other equipment in recording daily sales; and*
- (d) provide for matters connected with, or incidental, to the foregoing.*

### **Background**

6. The Value Added Tax (Amendment) Bill, N.A.B No. 21 of 2015, seeks to amend the *Value Added Tax Act*, Chapter 322 of the Laws of Zambia in order to reduce leakage and protect tax payer information. Specifically, the amendment provides for the introduction of fiscal cash registers in recording business transactions. The registers will enable the Zambia Revenue Authority to monitor transactions that occur and thereby, reduce revenue leakages and to provide for confidentiality of taxpayers' information.

Value Added Tax (VAT) is a type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale. The amount of value-added tax that the user pays is the cost of the product, less any of the costs of materials used in the product that have already been taxed. From the perspective of the buyer, it is a tax on the purchase price while from that of the seller, it is a tax only on the value added to a product, material or service. The manufacturer remits to the Government the difference between these two amounts and retains the rest for themselves to offset the taxes previously paid on the inputs.

For example, when a television is built by a company in Lusaka, the manufacturer is charged a value-added tax on all of the supplies they purchase for producing the television. Once the television reaches the shelf, the consumer who purchases it must pay the value-added tax that applies to him or her. It also is charged on some goods and services imported from outside the country. VAT is one the most complex taxes.

### **Salient Provisions of the Bill**

7. The salient provisions of the Value Added Tax (Amendment) Bill, N.A.B No. 21 of 2015, are as set out hereunder.

#### **Clause 2 – Amendment of Section 2**

Clause 2 seeks to amend Section 2 so as to provide for the definition of fiscal cash register.

### **Clause 3 – Amendment of Section 5**

Clause 3 seeks to amend Section 5 so as to clarify that, businesses solely involved in exempt supplies, are not eligible to form part of a recognised group for purposes of group VAT registration. Currently, a supplier exclusively dealing in non-taxable supplies is not eligible for VAT registration. Further, the current provision does not clearly indicate that this principle is also applicable for group registration. The measure is intended to clarify this principle and minimise revenue leakage through tax planning schemes that may be possible through abuse of the group registration provision.

### **Clause 4 – Insertion of Section 37A**

Clause 4 seeks to amend Section 37A so as to insert the words, ‘*prohibition of publication or disclosure of information to unauthorised persons.*’ The amendment is meant to introduce a secrecy provision in the *Value Added Tax Act* to safeguard the confidentiality of taxpayers' information. This will also align the Act to the other tax Laws.

### **Clause 5 – Insertion of Section 42A**

Clause 5 seeks to amend the Act so as to insert Clause 42A. The Clause is intended to make the use of a fiscal cash register mandatory. The Clause also makes provision for the use of any other equipment, device or document other than the fiscal cash register where a business is approved to use such equipment, device or document. Further, the amendment also provides for penalties for an offence of not using the cash register. The cost of procuring the fiscal registers (including the applicable taxes and duties) will be met by the businesses. Currently, the importation of a fiscal cash register attracts customs duty at fifteen percent and VAT at sixteen percent.

### **Clause 6 - Amendment of the Section 51**

Clause 6 amends Section 51 so as to remove the requirement to use a cash register. Currently, all retailers are required to use a cash register to record their daily transactions. This will be replaced by the fiscal cash register which will provide for better monitoring of suppliers of goods and services.

### **Clause 7 – Amendment of the Third Schedule**

Clause 7 seeks to amend the Third Schedule so that from the Minimum Taxable Value list the word '*Maheu*', a drink already covered under “*non-carbonated drinks*” is deleted.

### **Concerns Raised by Stakeholders**

8. The stakeholders who appeared before your Committee raised some concerns as summarised below.

The stakeholders expressed concern with regard to the introduction of fiscal cash registers to replace cash registers. They submitted that although the use of fiscal cash registers would

enhance compliance, optimise VAT revenue collection, as it will allow ZRA to directly monitor the transactions, the implementation will face a lot of challenges. For example, the registers would require high speed internet connectivity and consistency power. They were of the view that because of slow internet connectivity and inconsistent power supply, the measure will face challenges in its implementation.

Other stakeholders expressed concern about the removal of VAT on non-life insurance products and replacing it with a levy of three percent on premiums. They contended that although the measure was meant to help solve the administrative and compliance challenges that were faced on hybrid insurance products, the three percent levy was more like a turnover tax. They further submitted that although the measure is meant to simplify the taxation, the impact of the measure will depend on; the mix of insurance products sold; and the extent to which the tax can be passed on to the consumer.

### **Committee's Observations and Recommendations**

9. Your Committee supports the Bill which seeks to amend the *Value Added Tax Act*, Chapter 322 of the Laws of Zambia.

However, your Committee observes that the introduction of fiscal cash registers which requires to be linked to the Zambia Revenue Authority's tax administration system (Taxonline) will require reliable internet connectivity and power supply. Your Committee recommends that the Government should ensure that necessary infrastructure required for high speed and reliable internet connectivity is put in place and also pilot the use of fiscal cash registers before rolling them out. Further, while it appreciates that a number of measures have been put in place to cushion the impact of power deficits, your Committee recommends that strategic long term plans be put in place to attract more investments in the energy sector to guarantee power supply.

### **Conclusion**

10. Sir, your Committee concluded its deliberations within its terms of reference. To do this, your Committee had invited a number of stakeholders from whom it sought comments and reactions to the Bill. Your Committee is grateful to the stakeholders who made both oral and written submissions.

Your Committee Sir also wishes to thank you, Mr Speaker, for affording it an opportunity to consider the Bill. Your Committee further thanks the Office of the Clerk of the National Assembly for its assistance and advice throughout its deliberations.

Your Committee has the honour to present its Report on the Value Added Tax (Amendment) Bill, N.A.B No. 21 of 2015, referred to it by the House on 5th November, 2015.

Mr H H Hamududu, MP  
**Chairperson**

Mr E M Sing'ombe, MP  
**Member**

Mrs I M Mphande, MP  
**Member**

Mr J Shuma, MP  
**Member**

Mr R P Mtolo, MP  
**Member**

Mr G K Mwamba, MP  
**Member**

Mr B M Ntundu, MP  
**Member**

Mr P Phiri, MP  
**Member**

Dr G L Scott, MP  
**Member**

## **APPENDIX I**

### **List of Officials**

Mr S C Kawimbe, Principal Clerk of Committees  
Ms M K Sampa, Deputy Principal Clerk of Committees  
Mr F Nabulyato, Committee Clerk (SC)  
Mr M F Kateshi, Budget Analyst (Expenditure)  
Mr S Mtambo, Budget Analyst (Microeconomics)  
Mr C Chishimba, Assistant Committee Clerk  
Mrs D Mukwankwa, Assistant Committee Clerk  
Mr A Chilambwe, Assistant Committee Clerk  
Mr F Chikambwe, Assistant Committee Clerk  
Ms K Lufuma, Intern  
Ms S Kayawa, Stenographer  
Mr R Mumba, Committee Assistant  
Mr M Chikome, Parliamentary Messenger

## **APPENDIX II**

### **Ministry of Justice (MoJ)**

Mr A Nkunika, Acting Chief Parliamentary Counsel  
Mr M Chola, Acting Deputy Chief Parliamentary Counsel  
Ms D Kafunga, Acting Senior Parliamentary Counsel

### **Zambia Revenue Authority (ZRA)**

Mr B Msiska, Commissioner-General  
Mr D Banda, Commissioner-Customs  
Ms P Banda, Commissioner-Domestic Tax  
Ms M Mudenda, Commissioner-Corporate  
Ms D Goramota, Legal Counsel  
Mr E Phiri, Director-Research  
Mr L Simbeye, Executive Assistant  
Mr S Sifuniso, Senior Collector

### **Civil Society for Poverty Reduction (CSPR)**

Mr M Nkhoma, Programmes Officer  
Mr E Musosa, Programmes Officer

### **Zambia Institute of Chartered Accountants (ZICA)**

Mr C Chiteba, Acting Chief Executive Officer  
Mr M Phiri, Committee Member

### **Zambia Association of Chambers of Commerce and Industry (ZACCI)**

Mr M Nyirenda, Board Member  
Mr C Sakala, Officer - Business

### **Bankers Association of Zambia (BAZ)**

Mr L Mwanza, Chief Executive Officer  
Mr C Simatyamba, Chairman  
Ms D Tembwe, Member

### **Real Estate Investment of Zambia (REIZ) PLC**

Mr S E Popota, Acting Chief Executive Officer

**National Economic Advisory Council (NEAC)**

Mr W Wake, Executive Secretary

Dr O K Mungule, Policy Analyst

**Ministry of Finance (MoF)**

Mrs P Kabamba, Permanent Secretary

Ms M Mukubesa, Acting Director-Budget

Ms M Chikuba, Principal Analyst

Ms P Chitulangoma, Principal Analyst

Mr K Chimfwembe, Acting Chief Analyst