

# **TAX INCENTIVES & TAX EXPENDITURES**

## **Corporate Taxation in Zambia**

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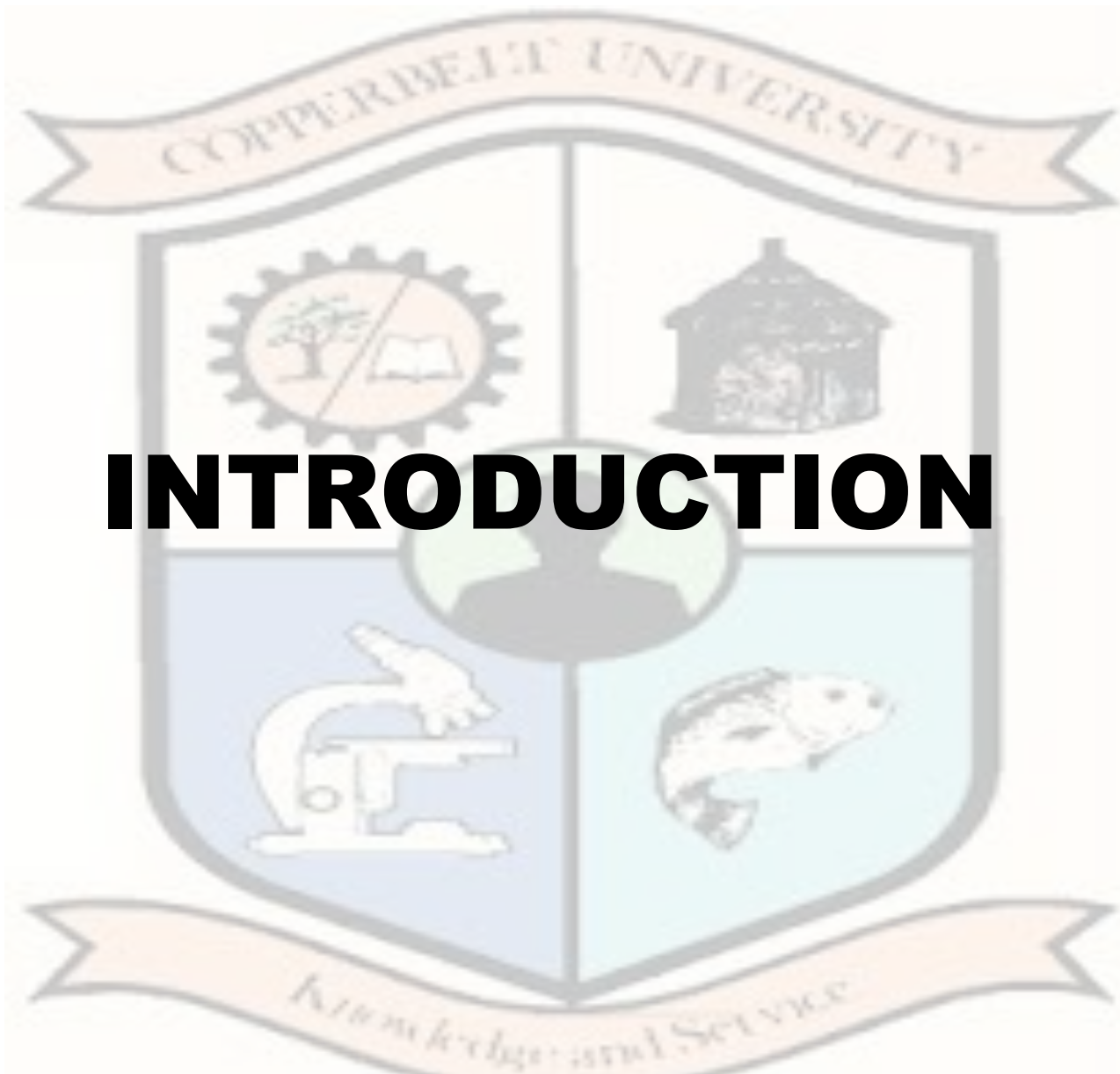
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# Scope

- Background
- Tax Incentives
- Revenue & Expenditure
- Financial flows
- Case studies
- Possible interventions
- Conclusion



# **INTRODUCTION**

# ZAMBIA

- **Extremely rich country, yet very poor**
- **GDP per capita US\$1,322.3 (2016)**
  - **(Population in 2017: 16,405,229)**
- **GINI index: 57.1 (2015)**
- **Poverty: 54.4% total poor (2015)**
  - 40.8% Extremely poor
  - 13.6% Moderately poor
  - 76.6% rural; 23.4% urban
- **Over US\$4.5 billion lost annually in tax fraud**

**Where is Zambia getting it wrong?**



# **TAX INCENTIVES**

## **(2006-2017)**

- **Zambia offers a very generous tax regime**

### **First Category: Over US\$10 million investment**

- 5 years zero tax on profits & dividends
- 50% tax on profits from year 6 to 8
- 75% tax on profits from year 9 to 10
- Zero percent import duty on raw materials, capital goods & machinery (including trucks & specialized motor vehicles)
- Entitled to negotiate additional incentives

# **TAX INCENTIVES**

## **(2006-2017)**

### **Second Category: not less than US\$500,000.**

- 5 years zero tax on profits & dividends
- 50% tax on profits from year 6 to 8
- 75% tax on profits from year 9 to 10
- Zero percent import duty on raw materials, capital goods & machinery (including trucks & specialized motor vehicles)
- VAT deferment on equipment & machinery (include trucks & specialized motor vehicles)

# **TAX INCENTIVES**

## **(2006-2017)**

### **Third Category: Micro or Small Enterprises**

- 5 years Income tax exemption – rural area
- 3 years Income tax exemption – urban area

### **Fourth Category: Invest less than US\$500,000 in a priority sector or product**

- Only entitled to general incentives available in other pieces of legislation



# **TAX INCENTIVES**

## **(2006-2017)**

**Fifth Category: invest any amount in a sector or product not classified as priority**

- Only entitled to general incentives available in other pieces of legislation

# **NEW INCENTIVES**

## **(2018--)**

- **Emphasis placed on developing Multi-economic Zones (MFEZ); Industrial Parks**
- **Two areas identified :**  
**Manufacturing and Priority Sectors**
- **Certificate of registration valid for 10 years**

# **NEW INCENTIVES**

## **(2018--)**

### **Manufacturing**

Above US\$500,000 in MFEZ, Industrial Park or Rural area

- **Accelerated depreciation on capital equipment & machinery**
- **5 years zero percent import duty on capital equipment & machinery**
- **Investment protection against nationalisation**
- **Free facilitation on applications for immigration permits, land acquisition, and secondary licenses.**

# **NEW INCENTIVES**

## **(2018--)**

### **Priority Sectors**

Less than US\$500,000 investment

- **5 years zero percent import duty on capital equipment & machinery**
- **Investment protection against nationalisation**
- **Free facilitation on applications for immigration permits, land acquisition, and secondary licenses.**



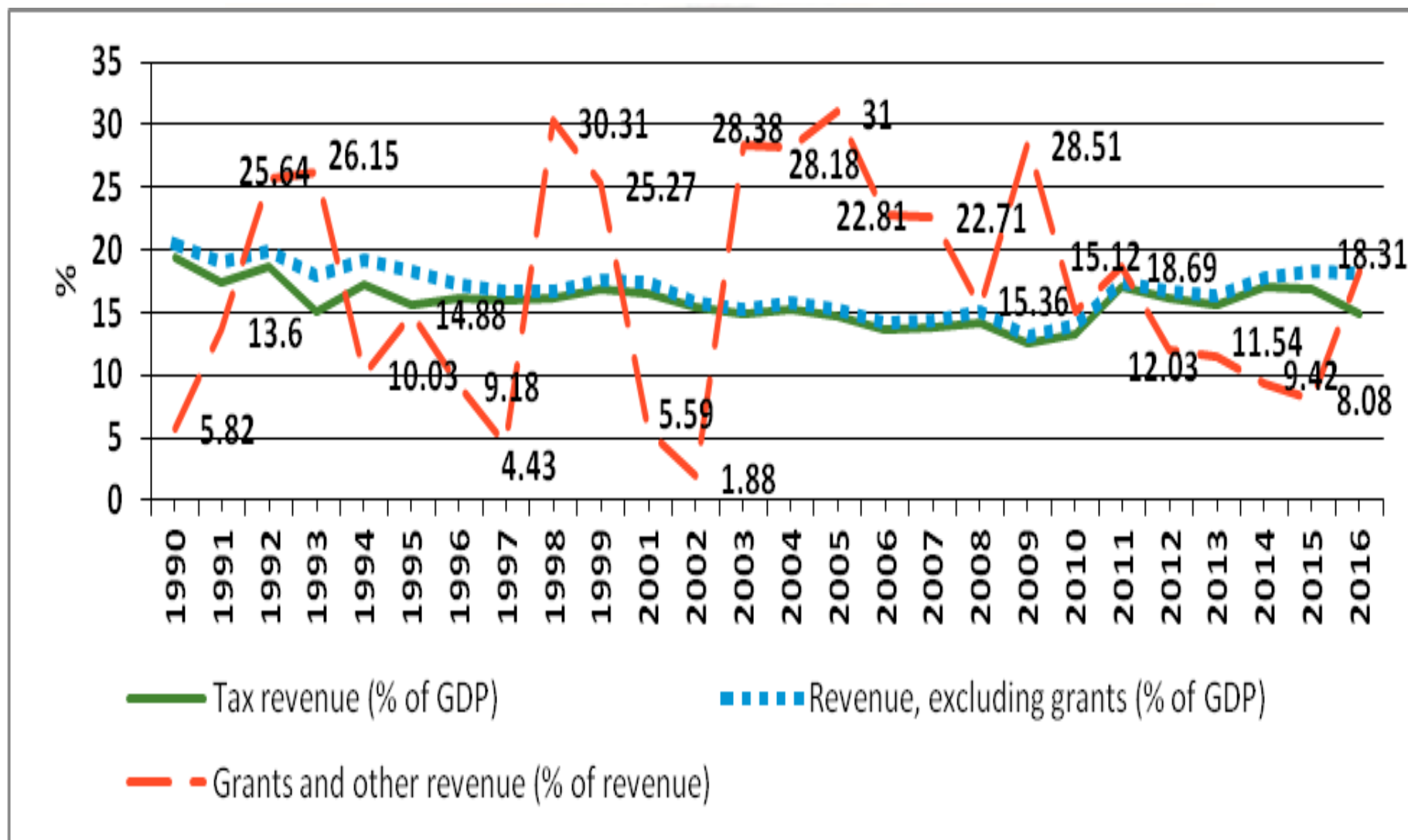
# **NEW INCENTIVES**

## **(2018--)**

### **Non-fiscal Incentives**

- **Investment protection against nationalisation**
- **Free facilitation on applications for immigration permits, land acquisition, and secondary licenses.**

# Revenue, Tax Revenue & Grants

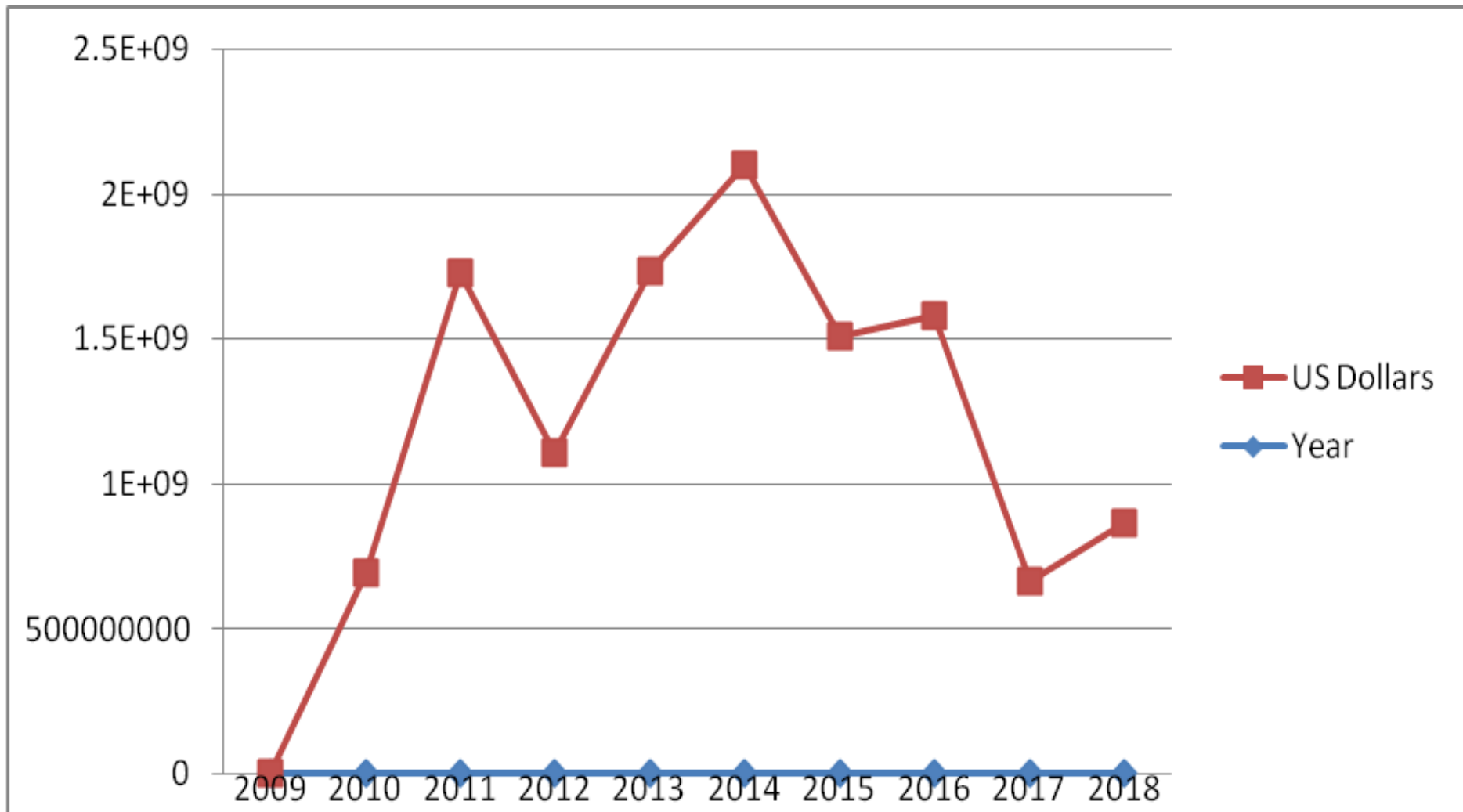


Source: World Bank (<http://zambia.opendataforafrica.org/WBWDI2018Jul/world-development-indicators-wdi>)

# Total Revenue, Expenditure, Grants & Loans

Year	Revenue		Expenditure		Grants Received	Loans
	K' million	% of GDP	K' million	% of GDP	K' million	US\$' million
2017	39,149.7	16.7	60,013.5	23.4	466.62	8,790.28
2016	39,400.0	18.5	58,500.0	27.4	545.91	6,947.10
2015	34,420.6	18.7	51,385.0	28.1	1,213.59	6,704.37
2014	30,558.1	18.3	37,595.0	22.6	2,626.62	4,729.60
2013	26,635.2	21.1	36,144.6	28.7	1,525.52	3,512.90
2012	23,134.6	21.8	26,152.2	24.7	762.40	3,179.60
2011	20,233.0	21.5	22,385.3	32.8	714.00	1,980.00

# FDI net inflow, 2009-2018



Source: World Bank (<http://zambia.opendataforafrica.org/WBWDI2018Jul/world-development-indicators-wdi>)



# **FINANCIAL OUT FLOWS**

- 1. Tax exemptions  
(income forgone)**
- 2. Tax refunds**
- 3. Double Taxation Agreements**
- 4. Illicit Financial Flows**
  - Tax evasion**
  - Corruption / bribery**
  - Procurement fraud**
  - Accounting fraud**
  - Money laundering, etc.**

# **Illicit Financial Flows**

## **Tax evasion activities**

- 1. Falsifying import invoices**
- 2. Foreign loans / offshore centres**
- 3. Transfer pricing**
- 4. False financial statements**
- 5. Unregistered company**
- 6. Suspicious transactions**

# DTAs Financial Loopholes

## Mystery Management

## A Dublin dog-leg

## Tax-free takeaway

1

### Shift Profits into Tax Havens

Since 2007  
**Zambia Sugar has paid its Irish arm**

**\$47.6m**

for 'management fees' despite the company accounts stating they have no employees

We estimate  
**Zambia has lost \$7.4m**



2

### Dodgy Banking

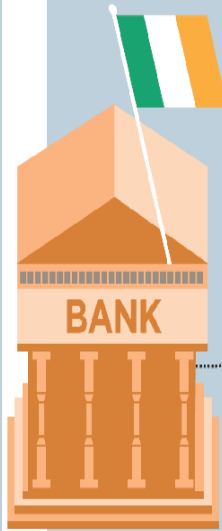
In November 2007  
Zambia Sugar took a **bank loan of**

**\$70m**

On paper this loan is routed through Ireland

This avoided tax on the interest charges **costing Zambia**

**\$3m**



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### The Big Shuffle

By shuffling the ownership of Zambia Sugar between Ireland, the Netherlands and Mauritius the company has reduced its Zambian tax bill by an estimated

**\$7.4m**  
since 2007



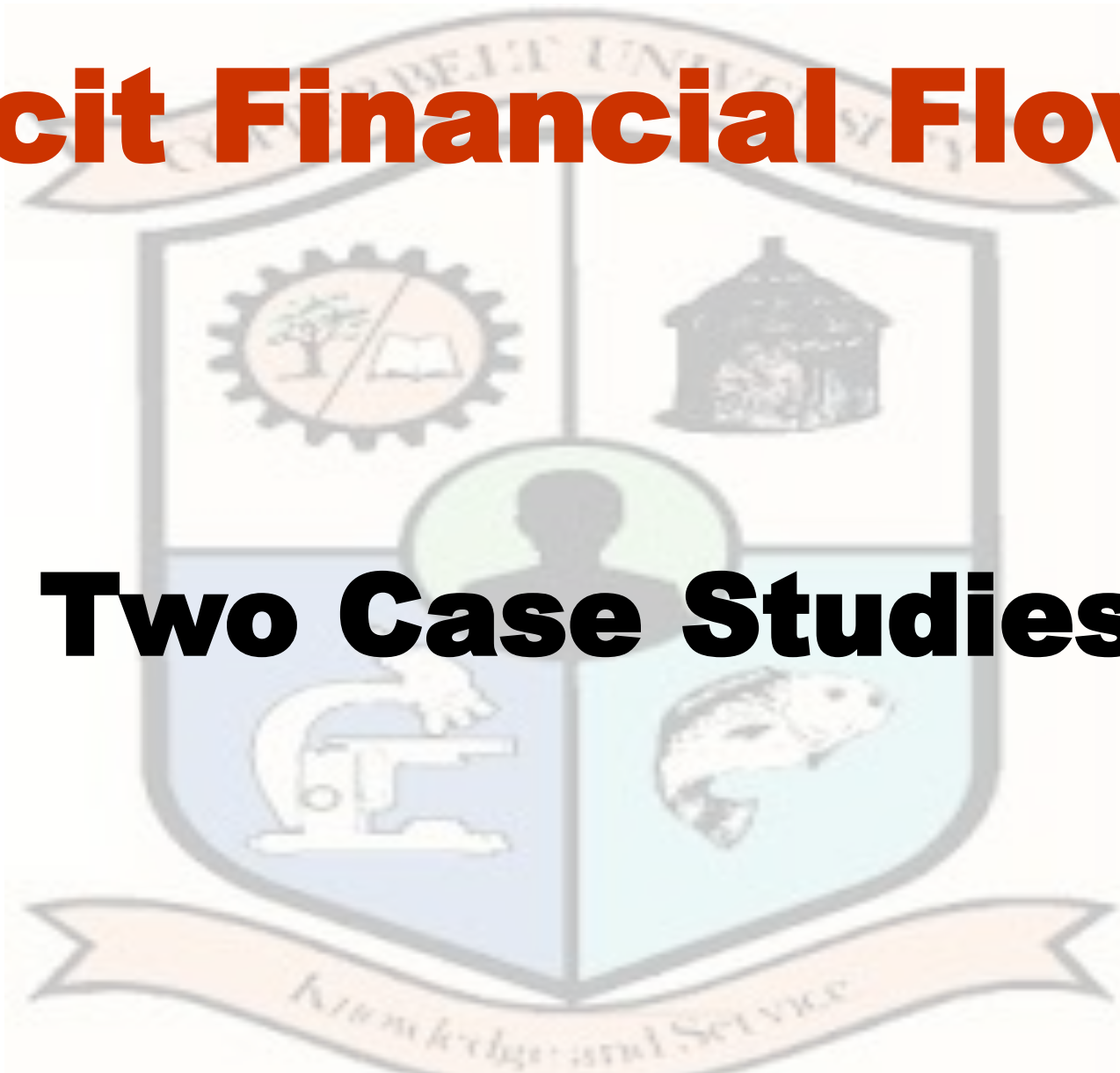
# Suspicious Transactions

	REASON FOR SUSPICION	POTENTIAL LOSS (ZMW)	(%)
1	Large or unusual cash deposits	269,439,304.00	6
2	Activity inconsistent with customer profile	167,443,954.00	3.6
3	Large or unusual inward remittances	151,750,036.00	3.3
4	Unusually large foreign currency transactions	55,686,058.00	1.2
5	Large outward or inward transfers	800,000.00	0
6	Fraud	92,756,443.00	2.0
7	Large or unusual cash withdrawals	7,442,063.00	0.2
8	<b>Suspected corruption / theft</b>	<b>3,518,300,000.00</b>	76.3
9	Large or unusual outward remittances	48,306,012.00	1.0
10	Unusual business practices	121,822,253.00	2.6
11	Other	171,435,039.00	3.7
	<b>TOTAL</b>	<b>4,605,181,162.00</b>	<b>100</b>

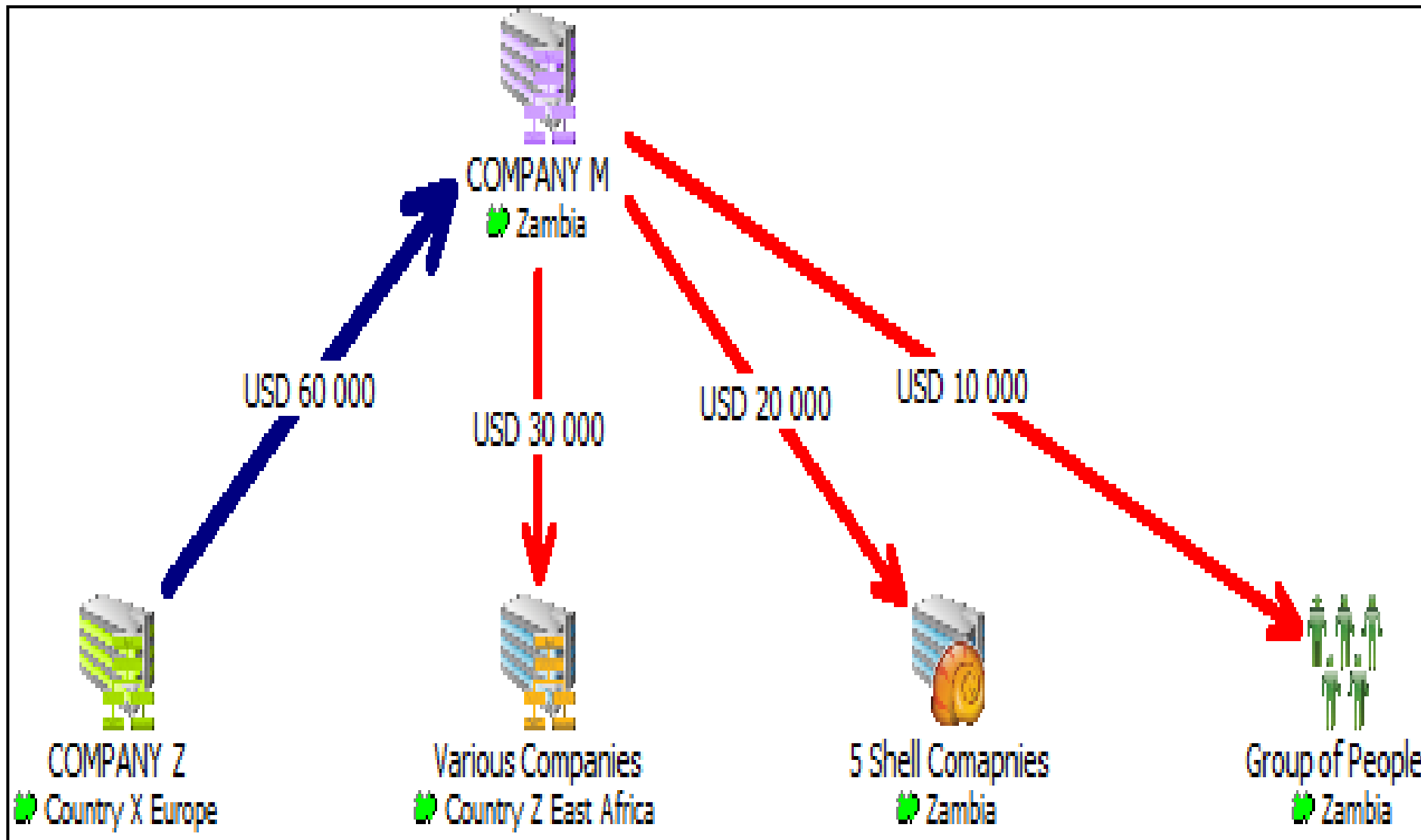


# **Illicit Financial Flows**

## **Two Case Studies**

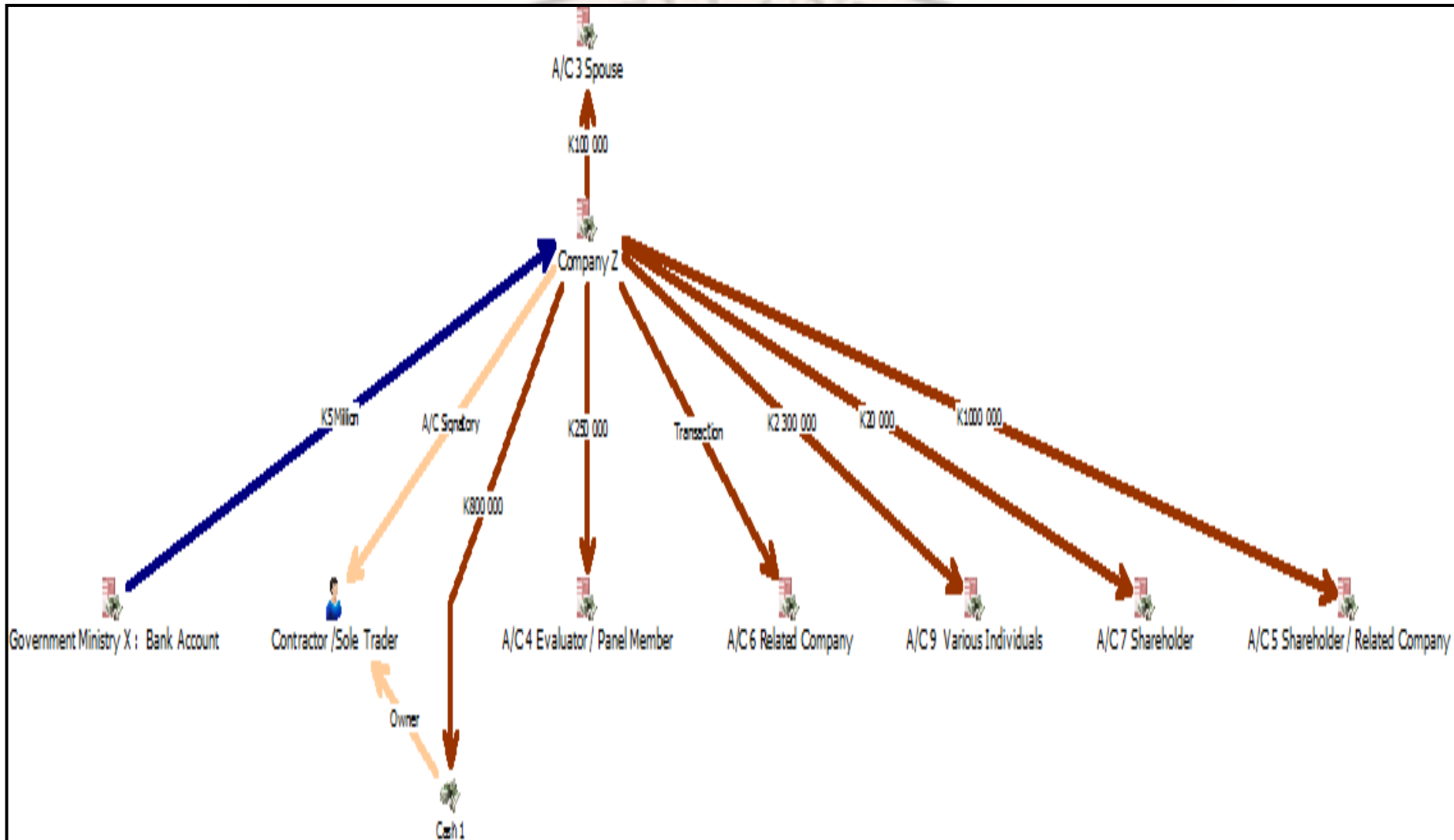


# Illicit Flow of Funds



Source: FIC (2014, p.15), Trends Report 2014

# Corruption in the Construction Industry



Source: FIC (2014, p.17), Trends Report 2014

# POSSIBLE INTERVENTIONS

## To improve domestic resource mobilization

- **Reform the tax regime; reduce tax incentives & exemptions**
- **Stump out corruption**
- **Stop illicit financial flows**
- **Media engagement**

# CONCLUSION

- **Zambia's tax regime too generous**
- **It favours companies against government (and its people)**
- **Huge sums lost through tax loop holes**
- **Weak institutional capacity for law enforcement**
- **Zambia loses over US\$4.5 billion annually in tax violations**





**THANK YOU!**