



**JESUIT CENTRE FOR THEOLOGICAL REFLECTION**

## **Policy brief**

**ENHANCING TAX REVENUE COLLECTION IN ZAMBIA  
Promoting Sustainable Development and Eradicating Poverty**



**By**

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## **EXECUTIVE SUMMARY**

In Zambia one of the biggest economic challenges is raising sufficient revenue from domestic taxation. Zambia's Finance Minister Hon. Alexander Chikwanda recently argued that "despite Zambia being endowed with vast mineral resources, the country has not realised maximum benefits from the sector's potential to support growth and enhanced socio economic development. In spite of the various changes in tax policies in the last 10 years with a view to optimize benefits from the mines have not yielded the desired results." Therefore, there is need for Zambia to collect more tax revenue to finance national development.

### ***Why does Zambia struggle to increase domestic revenues?***

There are a number of reasons why Zambia struggle to raise domestic revenue. Two are particularly important:

- The Zambian economy remains largely in the informal sector, which means that too few companies are paying tax. In 2012, 4.6 million people were employed in the informal sector while only around 850,000 worked in the formal sector: this translated into only K62 million being collected as tax revenue from the informal sector compared with close to K5billion from Pay As You Earn (PAYE) Tax from the employees in the formal sector. Currently, the informal sector employs over 70% of the labour force but contributes less than 5% in tax revenue.
- Loopholes in the tax system allow large Multinational companies – in particular the mining companies – to avoid taxation. Former Finance Deputy Minister Honourable Miles Sampa observed that some Multinational Companies mostly in the mining sector are using legal tax avoidance measures to escape paying taxes. The recent move, in the government's 2015 budget, away from a combination of profits and royalties based taxes to royalties – taxes on the *value* of copper mined, rather than profit rates – are welcome as this form of taxation is harder for companies to avoid, but they are not sufficient.

### ***Why does this matter?***

These difficulties with raising domestic revenue matter because the Government of Zambia needs a lot of revenues to spend on social services and key infrastructure such as roads, education and health facilities. The levels of poverty remain shockingly high with over 60% of Zambians still living below the poverty line and over 40% being "extremely poor". Without increased social spending the country will not be able to reduce such high levels of poverty.

Recently the government increased levels of borrowing, including on the international markets through Eurobonds. However, Zambia needs to enhance domestic resource mobilization and reduce its dependence on external financing. Zambia has in the past, experienced a severe debt crisis. In the event that no debt restructuring mechanism is implemented in the medium term, the country might again experience debt crisis. This would have catastrophic social consequences.

### ***An overhaul of the tax system: radical reform needed***

This paper argues for some radical reforms to the ways in which the Zambian government raises domestic revenues. In place of piecemeal changes to the tax legislation, which have rendered the tax system to be somewhat unstable especially in the mining sector, we need a more fundamental overhaul and a settlement on the tax system which is stable, allowing businesses and individuals to plan ahead. JCTR's recommendations are:

1. Enhance the collection of revenues from the informal sector, including by incorporating local councils in taxing the informal sector. Incorporating local councils in the system of taxation for the informal sector would be more effective as informal activities largely take place around the market places, which Councils have the mandate to oversee. Councils could collect revenue on behalf of the Zambia Revenue Authority (ZRA), with incentives to collect more from the informal sector.
2. Develop a comprehensive and stable settlement on taxation of mining in Zambia. Piecemeal amendments to the mining tax regime have included, among others, increased taxation of royalties, reduction of capital allowances from 100% to the standard 25% and taxation of income earned from processing of purchased mineral ore, concentrates and semi processed minerals. However, big problems remain: dividends paid by large scale mining companies are taxed at 0% and mining companies enjoy a 10 year period of carry forward losses. This reduces tax gains from the sector. A more comprehensive and long-lasting reform of the tax regime surrounding the mining sector would provide more revenue for government and certainty for companies.

## **INTRODUCTION**

This policy brief presents evidence on the Zambian tax system. Its core argument is that we need a radical overhaul of the tax system in order to increase domestic revenue to spend on measures to reduce poverty. In Annex A details of the main taxes in Zambia are presented. Below the policy brief is divided into four sections: the first sets out the problem, the second says why it matters, the third argues that more debt is not the answer and the final section presents JCTR's proposed responses.

### **THE PROBLEM: LOOPHOLES IN ZAMBIA'S TAX SYSTEM**

As Zambia's economy grows, tax revenues should also increase. In 2013 tax revenue in Zambia amounted to 18.4% of GDP<sup>1</sup>. However, Zambia needs to collect more tax revenue to finance national development. There are a number of reasons why Zambia struggles to raise domestic revenue. Two are particularly important: the size of the informal sector and the ease with which large companies can use loopholes to avoid tax.

#### ***A narrow tax base and the large informal sector***

The tax burden in Zambia is unevenly distributed and the tax base is too narrow.

Firstly, employees – through the Pay as You Earn (PAYE) tax system within the Income Tax Category - bear a large proportion of the tax burden. More tax revenue is collected through PAYE compared to Company Income Tax (CIT) or other taxes. In 2013, K5, 739 million was collected as PAYE tax as compared to only K2, 853 million company tax.<sup>2</sup>

Secondly, looking at the Zambian workforce in more detail, tax revenue collected in the informal sector is very minimal despite the large workforce in the informal sector. For instance, according to the Central Statistics Office (CSO) 2012 Labour Force Survey Report, just over 4.6 million were employed in the informal sector while only around 850,000 were employed in the formal sector<sup>3</sup>. However, the Zambia Revenue Authority (ZRA)

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<sup>1</sup>Zambia Revenue Authority, (2014). *2013 Annual report*.

<sup>2</sup>Zambia Revenue Authority, (2014). *2013 Annual Report*.

<sup>3</sup>Central Statistics Office, (2012). *Zambia Labour Force Survey Report 2012*. Lusaka: Central Statistics Office. The exact numbers are 847,420 and 4,652,253.

observes that in 2012, only K62 million worth of tax revenue was collected from the informal sector while K11.7 billion was collected from the formal sector.<sup>4</sup>

### ***Companies exploiting loopholes: mining taxation as a critical source of revenue***

Companies or businesses whose annual turnover exceeds K800, 000 are required to pay Company Income Tax (CIT). CIT is a tax based on profits. Perhaps the real problem surrounding such taxes is the problem of tax avoidance.

For example, determination by government of what exactly taxable profits are is difficult. Companies that declare losses do not pay tax at all under CIT. It has been observed that some companies have declared losses deliberately in order to avoid paying company tax. Action Aid Zambia reported in 2013 that, Associated British Foods (ABF) Zambian subsidiary “*Zambia Sugar*” used an array of transactions to reduce taxable profits and as a result the Zambian government lost tax revenue of around US\$17.7million.<sup>5</sup> In the Mining sector, Former Deputy Minister of Finance in 2012 observed that Multinational companies mostly, mining companies are using legal tax avoidance measures to escape US\$ 2 billion a year in taxes.<sup>6</sup> In addition, there are different tax rates applicable under CIT across the different sectors. This gives room for companies operating in two different sectors to shift costs and prefers to pay under the sector with a low tax rate.

Zambia’s mining sector has great potential to contribute more tax revenue to the treasury. Total tax revenue collected from the mining sector as a percentage of total tax revenue is around 20%<sup>7</sup>. However, between 1964-1976 when copper production was between 600, 000 to 700,000 metric tonnes, tax revenue collected as a percentage of total tax revenue averaged around 46%.<sup>8</sup> There have been new investments in the mining sector and copper production levels (tonnes) have definitely recovered strongly since

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<sup>4</sup>Zambia Revenue Authority (ZRA), Research and Planning Department

<sup>5</sup>Lewis, M. (2013). *Sweet Nothings*. Lusaka: Action Aid Zambia p.1

<sup>6</sup>Sampa, M. (2012, December 19). *Zambia Loses K40 trillion*. Zambia Daily Mail, p 1

<sup>7</sup>Nhekairo, W. (2014). *The Taxation System in Zambia*. Lusaka: Jesuit Centre for Theological Reflection p 21

<sup>8</sup>Whitworth (2014)*Explaining Zambian Poverty: a History of Non-Agricultural Economic Policy Since Independence* Journal of International Development J. Int. Dev. (2014)

1999<sup>9</sup>. In light of the new investments and high copper production levels, mining tax revenue contribution to the tax net should increase.

The government have taken progressive steps in adjusting some of the fiscal issues in the mining sector. For example, in the 2015 budget introduced new mineral royalty taxes. The move towards taxation of royalties– taxes on the value of copper mined rather than the profit rates of companies – will in theory be harder for companies to avoid. The Zambia Institute for Policy Analysis and Research (ZIPAR) observes that in 2013 the government expected to raise K2.7 billion from CIT, but only collected under half this amount – K1.1 billion. In contrast the Ministry of Finance raised 90% of what it had projected from royalties – K1.8 billion compared with a projected K1.9 billion<sup>10</sup>. With the recent move towards taxation of mineral royalties, it is expected that more tax revenue could be collected. It is also important to remember that while royalties have been increased, taxes on the profits of mines have been reduced.

However, more should be done if the mines are to effectively contribute sufficient tax revenue. There is need, for example, for government to continuously monitor production output levels and operational issues at mining sites instead of relying on information from the mining companies. Depending on mining companies to declare production figures is not sustainable and this could lead to distorted information on production levels. Without adequate information on mineral output it's would be difficult to collect adequate tax revenue.

In addition to the need to look more broadly at taxation of mining companies, government should look to develop a comprehensive reform of mining taxation which provides clarity and stability over the long-term. The frequent tax changes in the mining sector tax regime, contradicts the need for certainty in the taxation system as one of the key principles of taxation. According to Whitworth (2014) the mining taxation regime was revised in all of 2009, 2011 and 2012.<sup>11</sup>This lack of certainty in the tax system makes it much harder for businesses to undertake long term planning around investments and operations.

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<sup>9</sup>International Copper Study Group from 1996 onwards (Copper Bulletin March 2012 & 2013; Yearbook 2006; Statistical Yearbook 2008).

<sup>10</sup>Retrieved from <https://www.daily-mail.co.zm/?p=11660>

<sup>11</sup>Whitworth (2014)*Explaining Zambian Poverty: a History of Non-Agricultural Economic Policy Since Independence* Journal of International Development J. Int. Dev. (2014)

## **WHY IT MATTERS: POVERTY AND UNDERDEVELOPMENT IN ZAMBIA**

The difficulties with raising domestic revenue set out in the previous section are important because the Government of Zambia needs increased revenue to spend on reducing poverty. This includes spending on social services and key infrastructure such as roads and poor education and health facilities.

### *The scale and nature of poverty*

Zambia has over the past few years been experiencing high economic growth. In 2013, Zambia recorded Gross Domestic Product (GDP) growth of 6.3%.<sup>12</sup> In the 2014 Zambia recorded GDP growth of 6%.<sup>13</sup> Despite having sound economic growth, poverty is still rife and the country is largely under developed. According to the Living Conditions Monitoring Survey (LCMS) of 2010, 60.5% of Zambians are poor while 42.3% are extremely poor.<sup>14</sup> This entails that 60.5% of Zambians live below the poverty line and cannot afford the basics of life.<sup>15</sup>

Further, the state of key sanitation, health and education infrastructure in the country, especially in rural areas remains poor and falls below requisite standards for a decent life. JCTR's rural basket has found that in some rural areas, for instance, health and education institutions are manned by few qualified personnel who are over worked.<sup>16</sup> Further, shortage of essential drugs is a common occurrence in many health institutions in rural areas.

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<sup>12</sup>Ministry of Finance, (2014). Annual Economic Report 2013. Lusaka: Ministry of Finance p.xii

<sup>13</sup>Retrieved from <http://www.mofnp.gov.zm/index.php/news/229-ministry-of-finance-the-state-of-the-zambian-economy>

<sup>14</sup>Central Statistics Office, (2010). *Living Conditions Monitoring Survey 2010*. p 183

<sup>15</sup>Central Statistics Office, (2010). *Living Conditions Monitoring Survey 2010*. p 183

<sup>16</sup>JCTR, (2013). JCTR Rural Basket, March 2013. See <http://www.jctr.org.zm/rural-basic-needs-basket>

Figure 2 below shows the poor state of water, education and health facilities in Mulele area, Shangómbó district.

Figure 2

Service	Status
Water	32 boreholes, but 14 are out of use. Borehole at school broken down and pupils bring water from homes. Majority of the households drink water from the streams and wells
Education basic school (grade 1-7)	1 teacher, 74 pupils, the school is not adequately staffed and the school infrastructure is not in good condition
Health	People walk to Mutomena clinic about K28kilometers & they are 2 medical staff there
Agriculture Extension	Extension Officer rarely visits due to lack of transport

Source: JCTR Rural Basket, March 2013

*The drivers of poverty – why government spending matters*

There are many drivers of poverty in Zambia, many of which will require government action and spending to address. For example, they include inability of people to access decent education and health services, lack of decent employment and poor infrastructure to mention but a few.

The 2010 LCMS notes that 50.3% of youths aged between 10-14 years were never enrolled into learning institutions<sup>17</sup>. This is largely on account of limited schools especially in rural areas. Further, youth unemployment remains a key challenge in Zambia. The International Labour Organisation (ILO) observes that youths make up over 80% of total unemployment and they lack access to training and effective vocational guidance services that match industry needs.<sup>18</sup> While it is the case that there is political will to develop infrastructure, the state of infrastructure in Zambia is still a challenge. For instance, only 33% of urban paved roads are in good state and 12% of urban unpaved roads are in good state<sup>19</sup>. Regarding access to

<sup>17</sup>Central Statistics Office, (2010). *Living Conditions Monitoring Survey 2010*. p. 76

<sup>18</sup>International Labour Organization, (2013). *Zambia Decent work Country Programme*. P.2

<sup>19</sup>Road Development Agency (RDA), 2013.

electricity infrastructure, only 21.9% of Zambian households are connected to electricity supply and 76.8% of households are not<sup>20</sup>. The key point here is that addressing these policy challenges requires increased government spending.

### *Investing in infrastructure*

A lack of domestic tax revenue also holds back infrastructure investment. For example, it has been reported that the Zambia Railways Limited (ZRL) needs about US\$ 1billion to fully recapitalize by; replacing of the railway line, training of experts and buying new locomotives. The recapitalization of ZRL will mark the revival of the railway system in the country with great potential of enhancing trade activities.<sup>21</sup> As earlier alluded to, enhanced tax revenue collection is needed to generate revenue for development undertaking.

## **WHY MORE DEBT IS NOT THE ANSWER**

One possible answer to the need to raise more revenue to invest in reducing poverty is that Zambia can now borrow more on the international markets. However, this is not the right answer.

It is worth mentioning that resources to finance infrastructure expansion have already been largely financed by borrowing. For example, the Zambian government's ambitious road infrastructure development projects, among other projects aimed at ensuring that the country achieves higher levels of development, have been largely financed by debt resources. Simply borrowing more is not the right choice for the country.

According to the Treasury, the country's total debt as a percentage of GDP currently stands at 30.1 percent as at the end of September, 2014, with external and domestic debt at US\$4.7 billion and US\$3.26 billion, respectively<sup>22</sup>.

Although borrowing towards infrastructure upgrading could be in the strategic interest of the nation, many stakeholders including the JCTR are of

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<sup>20</sup>Central Statistics Office, (2010). *Living Conditions Monitoring Survey 2010*. p. 231

<sup>22</sup>Retrieved from <http://www.mofnp.gov.zm/index.php/news/218-update-on-zambias-external-debt>

the view that high debt levels imply high debt service payments which if not well managed could lead to serious consequences. In addition, huge debt service payments might be done at the expense of providing adequate health, education and other services thereby worsening the already existing poor state health and education services, especially in the rural areas.

Prior to the famous debt cancellation in 2006, Zambia's external debt stood at approximately US\$ 7.1 billion. The government was committing huge sums of money for debt servicing at the expense of allocating sufficient resources to social sectors whose direct beneficiaries were the majority poor Zambians. According to the JCTR study on Responsible Borrowing/Lending-Post Debt Cancellation (2011), Zambia was paying an average US\$ 290 million per year in form of debt servicing between 2003 and 2005<sup>23</sup>. Perhaps what is even more saddening with the current levels of borrowing is that 8 years after the debt cancellation Zambia has already borrowed (External debt – US\$ 4.7 billion) over half of its previous cancelled debt stock of US\$ 7.1 million<sup>24</sup>.

## **THE RESPONSE: ENHANCING TAX REVENUE COLLECTION TO FINANCE DEVELOPMENT**

The previous section argues that more debt is not the right answer to providing investment in poverty reduction. Instead JCTR advocates for the *review of the whole national revenue collection structure* in order for the country to raise sufficient revenues to finance development projects without over reliance on borrowing. This review should be comprehensive and should result in the development of a tax policy which provides long-term stability. However, there are two areas where there is particular need for reform: this is the informal sector and mining taxation.

### *Strategy for formalising the informal sector*

The potential of the informal sector to adequately contribute to the tax net has not been fully utilized. Contributions from the informal sector are still very minimal. ZIPAR notes that, "the amount of tax revenue that is forgone by not taxing the informal sector, assuming zero collection costs, was calculated at an average of 7.7% of GDP. This represents about 42% of total tax revenue collections yearly on average."<sup>25</sup> Adequate taxation of the informal sector will require effective inter agency collaboration. There is

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<sup>23</sup> JCTR (2011), "Responsible Borrowing/Lending-Post Debt Cancellation"

<sup>24</sup> JCTR (2011), "Responsible Borrowing/Lending-Post Debt Cancellation"

<sup>25</sup>Zambia Institute for Policy Analysis and Research (ZIPAR), "Taxing the Informal Sector: What Should Zambia Aim For"

need to effectively engage the local authorities in taxing the informal sector. Incorporating local councils in tax the informal sector would be more effective as Informal activities largely take place around the market places and Councils have the mandate to oversee the operations of the markets. The tax collection costs and modalities can be discussed between the ZRA and the Councils. For instance, to provide an incentive to local authorities to collect more revenue the Council could be allowed to keep a percentage of what they collect. Furthermore, there is need to have political will in the taxation of the informal sector. Many informal sector transactions happen at the markets, however, these markets have been controlled by political cadres who also collect tax revenue.

Registration can also improve the attitude of small business owners in the informal sector towards the state and, more importantly, help stimulate economic growth. In the long term this increased economic growth can then translate into more revenues. There is therefore need to not just focus on the revenue performance but to measure the registrations and the expansion of the activities of these taxpayers and their graduation to medium and large taxpayers.

### *Overhaul of mining taxation*

An equitable and efficient tax system has the potential to generate more tax revenue. To this effect, there is need to have a robust tax system that captures sufficient revenues. Unfortunately, the piecemeal changes to the tax legislation have rendered the Zambian tax system to be somewhat unstable especially in the mining sector. For instance, in the Mining sector since 2008 to date there has been a number of tax laws that have been introduced and abolished. Notable among these tax laws include the windfall tax introduced in 2008 and abolished in 2009. The current mining contribution as a share of total tax revenue is around 20% is lower than other mining countries in the region such as Botswana where the mining sector contributes 35%.<sup>26</sup> Excluding the tax contribution of the workers (PAYE) mining tax revenue contribution in Zambia is around 12%.<sup>27</sup> On the contrary, Allan Withworth notes that between 1964 – 1976 mining tax revenue contributions in Zambia as a percentage of total tax revenue averaged around 46%.<sup>28</sup> Despite new investments in the sector as earlier

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<sup>26</sup>Nhekairo, W. (2014). *The Taxation System in Zambia*. Lusaka: Jesuit Centre for Theological Reflection p 22

<sup>27</sup> Nhekairo, W. (2014). *The Taxation System in Zambia*. Lusaka: Jesuit Centre for Theological Reflection p 18-23

<sup>28</sup> Whitworth (2014) *Explaining Zambian Poverty: a History of Non-Agricultural Economic Policy Since Independence* Journal of International Development J. Int. Dev. (2014)

alluded too, tax revenue contribution has drastically reduced as compared to the 1960's and 1970's.

In as much as the recent mining tax changes highlighted in the 2015 budget address are effective as they focus on increased taxation of mineral royalties – on the value of the copper mined - there is need to ensure that other tax legislations dealing with mining are reviewed. Piecemeal amends of the various mining tax laws will not result into increased tax revenue collection from the mining sector. For instance, mineral royalty tax has been increased to 8% for underground mining and 20% for open cast mining operations. But at the same time mining companies still enjoy a 10 year period of carry forward losses and dividends paid by large scale mining companies are not taxed. Therefore, although on the one hand government introduces tax measures aimed at raising more tax sufficient tax revenue, on the other side, mining companies enjoy various incentives that reduces their taxable liability.

If the Zambia mining sector is to seriously contribute adequate tax revenue in a fair manner, it is imperative that government undertakes a detailed review of the entire mining tax regime and come up with a comprehensive tax regime. This tax regime should; promote transparency in the mining sector, have a long term focus, protect mining investments, generate adequate tax revenue to mention but a few. This will ensure that government collects a fair share of tax revenue from the sector and also guarantees growth and sustainability of the mining sector.

## **POLICY RECOMMENDATIONS**

### **JCTR POSITION ON ZAMBIA'S TAXATION SYSTEM**

#### **Informal sector taxation**

- The ZRA needs to effectively engage councils in taxing the informal sector. The local authorities are closer to the small business owners in the markets and understand better their working environment. The tax collection costs and modalities can be discussed between the ZRA and the Councils. For instance, to provide an incentive to local authorities to collect more revenue the Council could be allowed to keep a percentage of what they collect.
- There is need to enhance tax payer education and registration among micro, small and medium enterprises (MSMEs) in order to enhance informal sector taxation. To effectively undertake this there is need to incorporate other stakeholders in undertaking tax education. For

instance, media houses, district business associations, traditional leaders, church mother bodies to mention but a few.

### **Mining taxation**

- Government should continue with its plans to move away from profit based taxes to royalties –taxes on the value of minerals mined. Further, there is need to have a comprehensive and stable settlement on taxation of the fiscal aspect of mining in Zambia. This entails fiscal overhaul review and adjustment to the whole extractive sector. This will also allow identification of loopholes in some sector (forest sector and also precious minerals mining activities) for purposes of taxation and charges.
- Increase high skills training and programme activity support to mining Inspectors to enable them to carry out extensive assessments on the geological specifications, production costs, output levels and other related technicalities to ensure mining operators' statements are verified and appropriate revenues collected by government.

## **ANNEX A: THE ZAMBIAN TAX SYSTEM**

This annex presents the main taxes in the Zambian tax system. It draws on a previous paper by JCTR which provides full details of Taxes in Zambia.

This paper can be found at

[http://www.jctr.org.zm/images/stories/Tax\\_study/updatedtaxstudy.pdf](http://www.jctr.org.zm/images/stories/Tax_study/updatedtaxstudy.pdf)

### **INCOME TAXES**

The Income tax Act (Chapter 323 of the Laws of Zambia) is the legislation that governs Income taxes in Zambia. The following are the major taxes in the income tax bracket.

#### *Company Income Tax (CIT)*

This is tax on profits made by Limited Companies and businesses that have an annual turnover exceeding K800, 000.

#### *Pay As You Earn (PAYE)*

This is tax paid as proportion of an employee's total earnings. Earnings include wages, salaries, overtime, leave pay, commissions, fees, bonuses, gratuities and any other payments from employment or office. In Zambia, PAYE is paid to ZRA on a monthly basis by the employer on behalf of the employee.

#### *Turnover Tax*

This is the tax paid by businesses that have an annual turnover of K800, 000 or less. It is charged at 3% of the gross turnover and is paid monthly based on the month's turnover.

#### *Withholding Tax*

This tax is deductible from a payment by the payer at the point in time the payee becomes legally entitled to the payment (date of accrual). The payer is required to pay the tax deductible to ZRA by reference to the date of accrual no matter how, when or where payment is made. It is charged on Interest, Management and Consultancy Fees, Royalties and Public Entertainment Fees, Dividends, Rent, Commissions and Payments to Non – Resident Contractors.

### *Mineral Royalty*

This is charged under the Mines and Minerals Act Chapter 213 of the Laws of Zambia on any holder of large-scale mining license, small-scale mining license, gemstone license, or artisan mining right for extracting the minerals from the earth.

### *Property Transfer Tax*

This is a tax charged on the transfer of property under chapter 340 of the laws of Zambia. Property is generally defined as land, shares and mining rights/interest in mining rights.

## **EXCISE TAXES**

Administered under Chapter 322 of the Laws of Zambia. This 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. See Annex 1 on page 13 for detailed explanations on the tax rates applicable under Company tax.

### *Carbon Emissions Surtax*

This is charged on all motor vehicles being imported as well as those visiting and transiting. It is an annual charge for those vehicles already in the country based on the engine capacity of the vehicle. See Annex 1 on page 13 for detailed explanations on the tax rates applicable under Company tax.

## **TRADE TAXES**

### *Import VAT*

Taxed on imported goods that attracts VAT. Import VAT is charged on the Taxable Value i.e. Customs Value + Customs Duty (+Excise Duty, where applicable).

### *Customs Duty*

Levy/tax charged on imported goods. It is charged on customs value (cost insurance and freight)

### *Export Duty*

This is a tax charged on exported goods. It is charged on customs value.

## **DOMESTIC VALUE ADDED TAX (VAT)**

VAT is administered under chapter 331 of the laws of Zambia. Generally, VAT may be defined as a consumption-based tax that is levied in the supply chain at each point where value is added to a good or service. The standard rate is currently 16%.