



# Zambia

## Fiscal Guide 2015/2016

**Tax**





INTRODUCTION

# Zambia

## Fiscal Guide

### 2015/2016

## Income tax

### Basis of taxation

Tax is levied on a source or deemed source basis. Residents are taxed on domestic-source income and certain types of foreign income. Non-residents are usually taxed on Zambian-sourced income and are subject to a range of withholding taxes (WHT) – some of which may be reduced under a double tax treaty negotiated with the country of residence of the recipient.

### Rates

| Resident companies  |   |
|---|---|
| Corporation tax   |   |
| Manufacturing and other   | 35%                                       |
| Manufacturing of organic and chemic fertilizers                     | 15%                                       |
| Mining  | 30% plus variable tax (see below)         |
| Mining – profits earned from tolling                                | 35%                                       |
| Hedging income  | 35%                                       |
| Export duty on cooper & cobalt concentrates                         | 10%                                       |
| Export duty on cooper blisters                                      | 15%                                       |
| Export duty on all other unprocessed or semi-processed mineral ores | 10%                                       |
| Telecommunication companies   | First K250 000 35%<br>Above K250 000- 40% |
| Banks   | 35%                                       |
| Public benefit organisations  | 15%                                       |
| Farming and agro-processing   | 10%                                       |
| Export of non-traditional products                                  | 15%                                       |

### Withholding tax (WHT)

|   |     |
|---|-----|
| Dividends from non-mining companies   | 15% |
| Dividends from companies carrying on mining operations  | 0%  |
| Profits distribution by branches of foreign companies   | 15% |
| Winning from gaming, lotteries and betting (final tax)  | 20% |
| Debenture interest paid to Zambian investors in a property company listed on the Lusaka Stock Exchange        | 0%  |
| Interest for individuals (earned from banks or building societies, savings and deposit accounts), (final tax) | 0%  |
| Interest on Treasury Bills for individuals (final tax)  | 15% |
| Interest on Treasury Bills (final tax for exempt organizations)   | 15% |
| Royalties to non-residents (final tax)  | 20% |



### Withholding tax (WHT)

|  |     |
|--|-----|
| Royalties to non-residents (final tax)                 | 20% |
| WHT on rent (final tax)                                | 10% |
| Commissions to non-residents (final tax)               | 20% |
| Public entertainment fee for non-residents (final tax) | 20% |
| Payments to non-resident contractors (final tax)       | 20% |
| Management and consultancy fee for residents           | 15% |
| Management and consultancy fee for non-residents       | 20% |

| Income tax for resident and non-resident individuals (ZMW) | Tax rate (%) |
|--|--------------|
| Up to 36 000   | 0%           |
| 36 001 – 45 600  | 25%          |
| 45 601 – 70 800  | 30%          |
| Above 70 800   | 35%          |

The rates shown in table 3 above took effect from 1 January 2016 and are unchanged from 2015. The income tax charge year runs from 1 January to 31 December.

### Capital gains tax

There is no capital gains tax.

### Transfer pricing and thin capitalisation rules

The Income Tax Act (ITA) only provides guidance on the acceptable level of debt to equity ratio for mining companies, which is currently 3:1. However, there is no specific guidance on the acceptable level of debt to equity ratio applicable to other industry sectors.

The transfer pricing legislation is detailed in Section 97A of the ITA, which the Zambia Revenue Authority (ZRA) is enforcing. The Minister of Finance is yet to issue stricter rules and documentation requirements as announced in the 2012 and 2016 Medium Term Expenditure Framework. Based on our understanding of the legislation, the onus is on the taxpayer to ensure that the tax returns submitted are adjusted for any non-arm's length transactions. Management should ensure that there is sufficient evidence to demonstrate that transactions with connected entities are undertaken in line with the arm's length principle.

### Inheritances and donations

Estate duty was abolished. There is no gift tax.

### Transaction taxes

Taxable supplies are subject to Value Added Tax (VAT) at one of two rates:

- Standard rate: i.e. 16% that applies on most supplies of goods and services;
- Zero-rated: i.e. applies on exports of standard-rated goods and some specified goods and services; and
- Exempt supplies – these are items specifically excluded from liability to VAT such that even when a taxable supplier supplies them, no VAT is charged.



## Transfer duty

Fees are levied on increase of share capital at 2.5%, effective January 1994.

Property transfer tax (PTT) is levied at 5% on the transfer of any land (including leases of over 5 years) and any shares issued by a company incorporated in Zambia. PTT is levied at 10% on the transfer of mining rights.

## Other taxes

| Tax                                      | Basis   | Rate (%) |
|--|---|----------|
| Variable profit tax (mining)             | $Y=30\% + [15\% - (ab/c)]$  | 0-15%    |
| Mineral royalty                          | open-cast mining of base metal, precious metals and gemstones<br>underground mining of base metal, precious metals and gemstones<br>mining of industrial minerals   | 9%       |
| Mineral royalty                          | Underground mining of base metal, precious metals and gemstones<br>underground mining of base metal, precious metals and gemstones<br>mining of industrial minerals | 6%       |
| Advance income tax on commercial imports |   | 6%       |

## Double tax treaties and reduced rates

The countries that Zambia has signed Double Taxation Agreements (DTA) with include Botswana, Canada, China, Denmark, Finland, France, Germany, India, Ireland, Italy, Japan, Kenya, Mauritius, Netherlands, Norway, Romania, Seychelles, South Africa, Sweden, Tanzania, Uganda and the United Kingdom.

Please note that the treaties with France and Switzerland are technically no longer in force, since these are based on treaties originally entered into by the United Kingdom which have been subsequently repealed. Please also note that the ZRA do not generally respect the treaty with South Africa and will not grant treaty benefits under it.

We would recommend that anyone looking to claim treaty benefits should claim specific advice.

| Country  | Dividends (%) | Interest (%) | Royalties (%) | Management fees (%) |
|----------|---------------|--------------|---------------|---------------------|
| Botswana | 5%*/ 7%       | 10%          | 10%           | Nil                 |
| Canada   | 15%           | 15%          | 15%           | Nil***              |
| China    | 5%            | 10%          | 5%            | Nil****             |
| Denmark  | 15%           | 10%          | 15%           | Nil                 |
| Finland  | 5%/15%**      | 15%          | 5/15%         | Nil                 |
| France   | 0%            | 0%           | 0%            | 0%**                |
| Germany  | 5%/15%**      | 10%          | 10%           | Nil                 |
| India    | 5%/15%**      | 10%          | 10%           | Nil/10%***          |
| Ireland  | 7.5%          | 10%          | 10%           | Nil                 |
| Italy    | 5%/15%**      | 10%          | 10%           | Nil                 |
| Japan    | 0%            | 10%          | 10%           | Nil                 |

\* Rate applies if income is subject to tax in country of recipient

\*\*The 5% rate applies if the recipient is a company which controls directly or indirectly at least 25 per cent of the voting power/capital/shares in the company paying the dividends.

\*\*\* Certain conditions apply



| Country        | Dividends (%) | Interest (%) | Royalties (%) | Management fees (%) |
|----------------|---------------|--------------|---------------|---------------------|
| Kenya          | 0% *          | 15%          | 0% *          | 0% *                |
| Mauritius      | 5%/15% **     | 10%          | 5%            | Nil                 |
| Netherlands    | 5%/15% **     | 10%          | 10%           | Nil                 |
| Norway         | 15%           | 10%          | 15%           | Nil                 |
| Romania        | 10%           | 10%          | 15%           | Nil                 |
| South Africa   | 15%           | 15%          | 15%           | 0% *                |
| Sweden         | 5%/15% **     | 10%          | 10%           | Nil                 |
| Switzerland    | 5%/15% **     | Nil          | Nil           | Nil                 |
| Tanzania       | 0% *          | 15%          | 0% *          | 0% *                |
| Uganda         | 0% *          | 15%          | 0% *          | 0% *                |
| United Kingdom | 5%/15% **     | 10%          | 10%           | Nil                 |

\* Rate applies if income is subject to tax in country of recipient

\*\*The 5% rate applies if the recipient is a company which controls directly or indirectly at least 25 per cent of the voting power/capital/shares in the company paying the dividends.

\*\*\* Certain conditions apply

\*\*\*\* Excludes director's fees

Since the domestic withholding tax rate for interest and dividends is 15%, the maximum rate suffered by any person is restricted to 15%.

The domestic withholding tax rate for royalties and management fees is 20%, therefore the maximum rate suffered by any person is restricted to 20%.

### Investment information

Zambia is a multi-party democracy and provides a market-oriented liberalized economic environment in a strife-free, multicultural society. The Zambian Government welcomes investors across sectors and the laws relating to investment have provided for incentives aimed specifically at increased levels of investment and international trade, as well as increased domestic economic growth.

### Tax incentives

| Capital allowances  | 2016 | 2015 | 2014 |
|---|------|------|------|
| Investment/initial allowance on new industrial buildings            | 10%  | 10%  | 10%  |
| Industrial building allowance                                       | 5%   | 5%   | 5%   |
| Plant and machinery and commercial vehicles                         | 25%  | 25%  | 25%  |
| Plant & machinery used in manufacturing & tourism                   | 50%  | 50%  | 50%  |
| Implements, machinery & plant used in the generation of electricity | 50%  | 50%  | 50%  |
| Non-commercial vehicles   | 20%  | 20%  | 20%  |
| Commercial buildings  | 2%   | 2%   | 2%   |
| Farm works/improvements   | 100% | 100% | 100% |

### ZDA Act: tax incentives

The Zambia Development Agency (ZDA) Act of 2006 offers a wide range of incentives in the form of allowances, exemptions & concessions for companies. The tax incentives will only be granted to rural business enterprise or business enterprise operating in a priority sector, a multi-facility economic zone or an industrial park.

### Tax incentives available under the ZDA as provided in the ITA

1. On the income of a rural business enterprise or business enterprise operating in a priority sector, a multi-facility economic zone or an industrial park tax shall be charged at zero percent on profits for 5 years from the year of commencement of operations of the approved investment.
2. Five-year exemption on dividend taxes from the date of commencement of operations for a rural business enterprise or business enterprise operating in a priority sector, a multi-facility economic zone or an industrial park.

## Tax incentives available under the ZDA as provided in the ITA (continued)

3. Five-year customs duty exemption on imported machinery and equipment. Import duty exemptions accessed through the ZDA will no longer be granted to new license holders from the midnight of 11 October 2013 but this will exclude current license holders in multi- facility economic zones (MFEZ), industrial parks and business enterprises in rural areas.
4. Improvement allowance of 100% capital expenditure on improvements or upgrading of infrastructure. Only businesses operating in a MFEZ or industrial park are eligible to claim improvement allowance.

Investors who violate provisions under which the ZDA incentives were granted shall face sanctions including revocation of their investment licenses.

## Minimum wage

On 6 July 2012 the government, issued a new statutory instrument on minimum wages and conditions of employment for protected employees that are engaged in shops, general establishments and domestic service.

## Residence and work permits

An employment permit allows a person to live and work in Zambia. Where the individuals seeking permits are employed by a local company, the application should be made by the employer, on behalf of the employee. The following must be submitted to the immigration department:

- Completed form 10;
- Letter of application on the employer's official letterhead;
- Certified copies of educational and professional certificates;
- A detailed curriculum vitae;
- Signed contract of employment;
- Certified copy of passport;
- Police clearance report from applicant's country of residence; and
- Certified copy of a marriage certificate if the applicant is married.

## Annual budget announcement

The budget for the charge year 2016 was announced on 9 October 2015.

## Bilateral trade and agreements

### Membership - SADC and COMESA

Zambia is a signatory to the Multilateral Investment Guarantee Agency (MIGA) of the World Bank and other international agreements. This guarantees foreign investment protection in cases of war, strife, disasters, and other disturbances or in cases of expropriation. Zambia has signed bilateral, reciprocal, promotional and protection of investment protocols with number of countries.

## Economic statistics

### Four year summary

(% unless otherwise indicated)

|                            | 2012 | 2013 | 2014 | 2015   |
|----------------------------|------|------|------|--------|
| Lending Interest rates     | 13.9 | 13.5 | 17.0 | **17.0 |
| Consumer price inflation   | 6.6  | 6.2  | 7.8  | **21.3 |
| Exchange rate ZK:US\$ (av) | 5.2  | 5.5  | 6.4  | **8.6  |
| Real GDP growth            | 7.3  | 6.4  | 6.4  | **4.6  |

\*\*subject to change. Please also note that the Zambian kwacha was very volatile in 2015.

## Travel information

|                   |  |
|-------------------|--|
| Visa requirements | Consultants and other experts that are entering Zambia to conduct business with an organisation can obtain a visa at the port of entry. A 'business' visitor must produce an invitation letter from the inviting institution. Business visits by a single individual cannot exceed 30 days in a 12- month period.  |
| Flights           | <ul style="list-style-type: none"> <li>• Air Botswana</li> <li>• Air Malawi</li> <li>• Air Namibia</li> <li>• Emirates</li> <li>• Airlink</li> <li>• Ethiopian Airlines</li> <li>• Kenya Airways</li> <li>• Precision Airways</li> <li>• Proflight Zambia</li> <li>• RwandAir</li> <li>• South African Airways</li> <li>• South African Express</li> <li>• TAAG Angola Airlines</li> </ul> |
| Inoculations      | <p>No immunisations are required by law for entry into Zambia, unless you are from an area where yellow fever is endemic (e.g. Democratic Republic of Congo). In that case, a vaccination certificate is usually required.</p> <p>For precautionary purposes the following vaccines should be taken:</p>   |
| Diphtheria        | Yes  |
| Hepatitis A       | Yes  |
| Malaria           | Yes  |
| Rabies            | Sometimes  |
| Tetanus           | Yes  |
| Typhoid           | Yes  |
| Yellow Fever      | Yes  |

## Currency

The Zambian Kwacha (ZMW), this is divided into 100 ngwee.

## Languages

English is the official and commercial language

## Official holidays

- 1 January (New Year's Day)
- 8 March (International Women's Day)
- 12 March (Youth Day)
- 25 March (Good Friday)
- 26 March (Easter Saturday)
- 27 March (Easter Sunday)
- 28 March (Easter Monday)
- 1 May (Labour Day)
- 25 May (African Freedom Day)
- 1 July (Heroes' Day)
- 5 July (Unity Day)

### Official holidays (continued)

- 1 August (Farmers' Day)
- 18 October (National Day of Prayer)
- 24 October (Independence Day)
- 25 December (Christmas Day)





## Contact us

**Michael Phiri**  
**Partner**  
**T:** 260 211372900  
**E:** mphiri@kpmg.com

[www.kpmg.com](http://www.kpmg.com)

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