




# 2019 Budget Highlights

Zambia

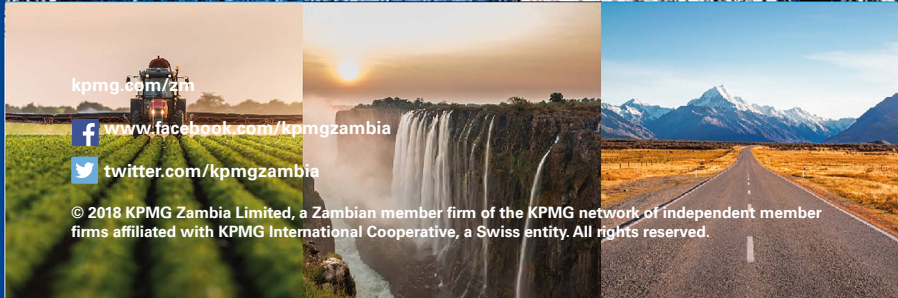


[kpmg.com/zm](http://kpmg.com/zm)

 [www.facebook.com/kpmgzambia](https://www.facebook.com/kpmgzambia)

 [twitter.com/kpmgzambia](https://twitter.com/kpmgzambia)

© 2018 KPMG Zambia Limited, a Zambian member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.



# Contents

02

**Foreword**

04

**Budget  
Outturn - 2018**

04

**Budget  
Outlook - 2019**

04

**Macro -  
Economic  
targets**

05

**Economic  
Indicators**



8

**Policy Initiatives**

**Transport, Information and Technology Infrastructure 9**

**Mining and Energy 9**

**Industrialisation 10**

**Agriculture, Livestock and Fisheries 11**

**Regional and International Trade 12**

**Tourism 12**

**Education 13**

**Health 14**

**Other Policy Initiatives 15**

18

**The 2019 Budget**

22

**Domestic Taxes**

32

**Customs and Excise**

33

**Other Information**



# FOREWORD

## **“Delivering Fiscal Consolidation for Sustainable and Inclusive Growth”**

*The 2019 budget will seek to gradually condense the fiscal deficit, maintain a sustainable debt position and safeguard the vulnerable in society.*

The Minister of Finance, Honourable Margaret Mwanakatwe, in her maiden national budget presentation informed the nation that the 2019 budget was framed on building on the firm foundation of the past seven years and tackling the challenges ahead.

The Minister acknowledged that despite the positive strides the country has made, in improving health and education infrastructure, enhancing interconnectivity of Zambia (to benefit from the its central location) through improved road and telecommunication infrastructure and increased social safety coverage for the vulnerable, economic growth remains below the country's potential and the high levels of poverty have persisted.

The Minister recognises the role that the private sector has to play in addressing these challenges and government's role in encouraging the private sector to invest, innovate and create jobs through putting in place measures that reduce the fiscal deficit, maintains debt within sustainable levels and builds a Smart Zambia to stimulate private sector investments.

### **A snapshot:**

#### **Economic performance over the past year:**

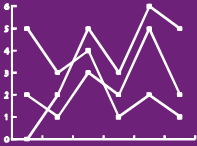
- Economic growth projected to close at 4% from 3.4% in 2017 spurred by improved performance in mining, construction, manufacturing, wholesale and retail trade sectors boosted by reliable energy supply.
- Budget deficit estimated to close at 7.4% of GDP against a target of 6.1% owing to projected higher than budgeted expenditure due to higher interest payments and project loan disbursements.
- External debt stock at close of June 2018 was US\$ 9.4 billion (34.7% of GDP) up from US\$ 8.7 billion in December 2017.

- Domestic debt stood at ZMW 13.9 billion at the end of March 2018 from ZMW 12.7 billion in December 2017.
- Government guaranteed debt stock was US\$ 1.2 billion at close of June 2018.
- Inflation was 7.9% at the end of September 2018 from 6.1% at the end of December 2017.
- Despite a notable increase in exports by about 20.7% to US\$ 4.6 billion as at the close of the first half of 2018, the current account deficit expanded to US\$ 756 million on account of increased imports relative to exports.
- Gross international reserves fell to US\$ 1.8 billion (two months of import cover) at the end of July 2018 from US\$ 2.1 billion at close of December 2017.
- Some notable legislation was enacted such as the Credit Reporting Act, the Movable Property (Security Interest) Act and the Public Finance Management Act.

### 2019 budget objectives:

- Annual GDP growth rate of at least 4%.
- Sustain, as in previous year, inflation within the range of 6% to 8%.
- Raise international reserves to at least 3 months of import cover.
- Increase domestic revenue to not less than 18.4% of GDP from 17.7% in 2018.
- Reduce the fiscal deficit to 6.5% of GDP from 7.4% in 2018.
- Dismantling and curtailing of arrears prioritised.
- Ease the pace of debt accumulation and ensure its sustainability.
- Government proposes expenditure of ZMW 86.8 billion (18.7% of GDP) in 2019 anchored on the austerity measures already announced.
- Government proposes domestic revenue measures which are expected to raise ZMW 56.1 billion. This revenue will be raised as follows: income tax - ZMW 23.3 billion, VAT - ZMW 14.9 billion, customs and excise duty - ZMW 8.4 billion, non-tax revenue ZMW 9.1 billion, other revenue – ZMW 391 million, and domestic financing - ZMW 4.2 billion.
- The makeup of the sources of the revenue measures are 64.6% from domestic revenue, 33.2% financing from domestic and foreign sources, and 2.2% from cooperating partners.

## Budget Outturn 2018



- Economic growth of 4% is projected for 2018 from 3.4% in 2017.
- Inflation within target range of 6% to 8% during the first six months of the year.
- Monetary policy rate reduced to 9.75% in May 2018 from 12.5% in November 2017. Whilst statutory reserve ratio reduced to 5% from 8%.
- Directive to remove unwarranted bank charges and fees issued in August 2018 by Bank of Zambia.
- Lending rates declined to an average of 23.5% in August 2018 from an average of 26.7% in December 2017.
- Copper export earnings increased from US\$ 2.9 billion in the first half of 2017 to US\$ 3.5 billion same period in 2018.
- Overall export sales increased from US\$ 3.8 billion in 2017 to US\$ 4.6 billion.
- Gross international reserves declined to two months of import cover (US\$ 1.6 billion) at the end of July 2018 from US\$ 2.1 billion at the end of December 2017.
- Kwacha depreciated to an average of ZMW 10.10 per US\$ in August 2018 from ZMW 10.01 in December 2017. Exchange rate suffered further added pressure in September 2018.
- Budget deficit of 7.4% of GDP projected for 2018 against a target of 6.1% of GDP.
- External debt stock stood at US\$ 9.4 billion as at 30 June 2018 (34.7% of GDP) from US\$ 8.7 billion as at December 2017.
- Domestic debt stood at ZMW 51.9 billion as at end June 2018 (19.2% of GDP) compared to ZMW 48.4 billion at December 2017.
- Domestic arrears stood at ZMW 13.9 billion as at March 2018 from ZMW 12.7 billion at December 2017.

## Budget Outlook 2019

**Government Expenditure**

**ZMW 86.8 billion**

**Government Revenue**

**ZMW 56.1 billion**

**Financing from corporate partners**

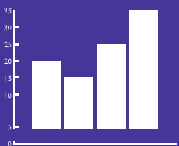
**ZMW 1.9 billion**

**Financing from domestic and foreign sources**

**ZMW 28.8 billion**

Source: Ministry of Finance, 2019 National Budget

## Macroeconomic Targets 2018-2021



TARGET	2018	2019	2020	2021
<b>Real GDP Growth</b>	4.0%	4.3%	4.5%	4.6%
<b>CPI Inflation (end of period)</b>	6% to 8%			
<b>Budget Deficit (% of GDP)</b>	7.4%	6.5%	5.5%	5.1%
<b>Copper Price (US\$/MT)</b>	6,454	6,477	6,490	6,490
<b>Copper production (MT)</b>	891,203	924,510	961,822	999,302

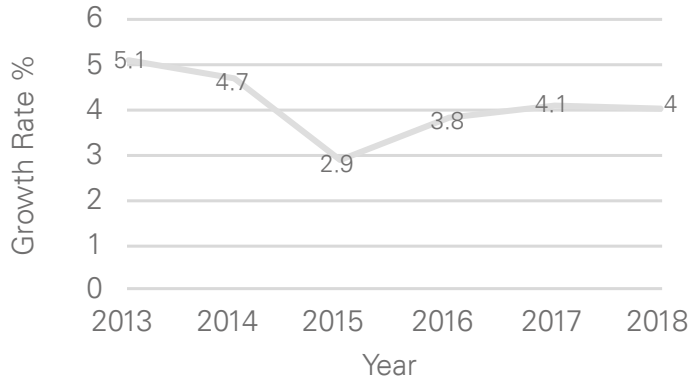
Source: Ministry of Finance, Green Paper.2019 -2021 Medium Term Expenditure Framework and 2019 National Budget

# Economic Indicators



## Real GDP Growth Rate %

Reduction of economic growth in 2018 was due to restricted farming output resulting from prolonged dry spells during the last farming season.



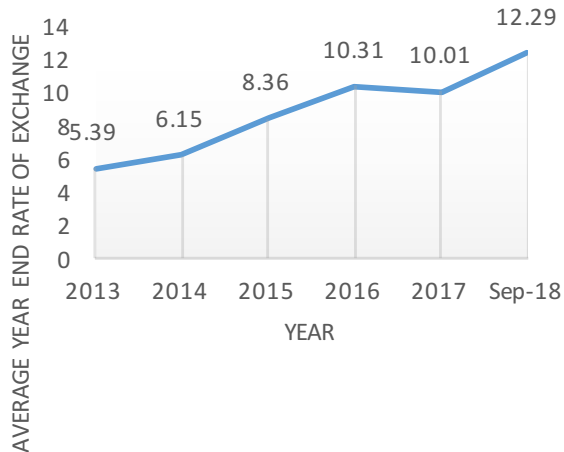
Source: Bank of Zambia, Ministry of Finance

# Economic Indicators



## Year end US\$ Exchange rate

During the first eight months of the year, the market saw increased pressure on the exchange rate. Increased demand for foreign exchange by fuel importers during the month of September 2018 resulted in the depreciation of the Kwacha further.



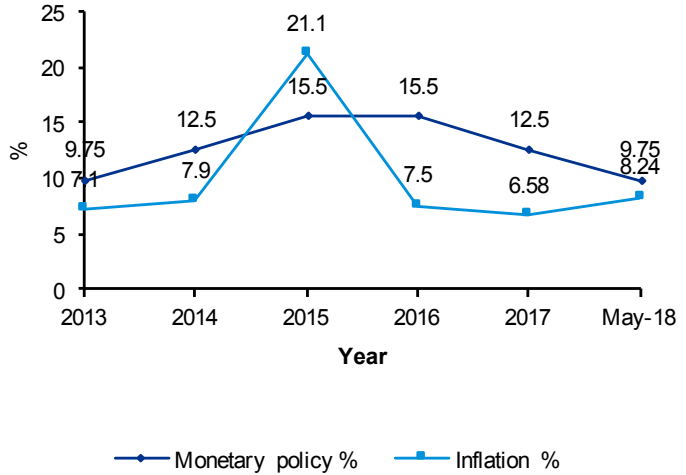
Source: Bank of Zambia, Ministry of Finance

# Economic Indicators



## Monetary policy rate and inflation

Over the short to medium term, Monetary policy will be focused on re-anchoring inflation rates to fall within the 6% to 8% CPI inflation range.



Source: Bank of Zambia, Central Statistics Office

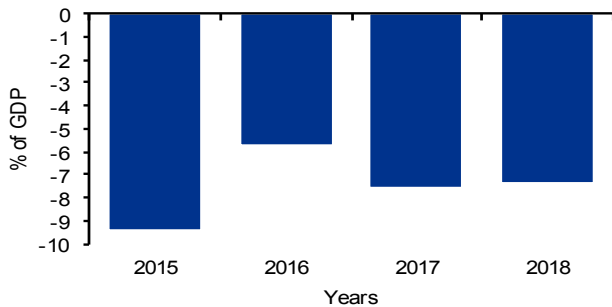
# Economic Indicators



## Fiscal Deficit as a % of GDP

The country has experienced budget deficit consistently over the past five years.

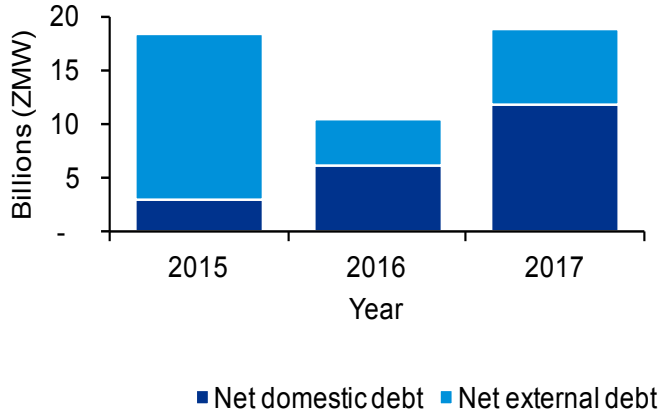
Government's strategy to reduce the size of the deficits includes domestic revenue mobilisation through improved tax compliance, efficient and effective revenue administration.



Source: Ministry of Finance, Green Paper.2019-2021 Medium Term Expenditure Framework and 2019 Budget



## Trend in Public Debt



Source: Ministry of Finance, Green Paper.2019 -2021 Medium Term Expenditure Framework and 2019 Budget



# Policy Initiatives

---

- **Transport, Information and Technology Infrastructure**
  - **Mining and Energy**
  - **Industrialisation**
  - **Agriculture, Livestock and Fisheries**
  - **Regional and International Trade**
  - **Tourism**
  - **Education**
  - **Health**
  - **Other Policy Initiatives**
-



### **Telecommunications Traffic Monitoring System**

- Government will fully operationalise the Telecommunications Traffic Monitoring System in 2019 which is expected to enhance transparency and regulatory compliance in the sector.

### **Universal Access to Communication**

- Government is implementing a programme to construct 1,009 communication towers across the country. 300 towers will be erected in 2019 in addition to 318 already erected.



### **Source of foreign exchange**

- Mining remains an important source of foreign exchange earnings, therefore Government will continue to promote exploitation of industrial minerals and gemstones by making available geological information.
- Government will also continue with the Development of Mineral Capacity Building programme to promote small scale mining.

### **Monitoring Mineral Production**

- The Mineral Production Monitoring Support Project will be extended to encompass small and medium mining companies.

### **Diversification of the Energy mix**

- Government will continue with the diversification of the energy sources to ensure reliable supply. A number of projects are being undertaken to increase electricity generation as well as diversify the energy mix which include: development of 300 megawatts of the second phase of the Maamba Coal fired thermal power plant; 750 megawatts Kafue Gorge Lower Hydro Power Station, and upgrading of the Lusiwasi Hydro Power Project; and implementing the Renewable Energy Feed-in-Tariff Strategy which aims to bring an additional 200 megawatts to the national grid with the procurement process for the first 100 megawatts expected in 2019.

## Mining and Energy (cont)



- Further Scaling Solar Initiative is being implemented in the Lusaka South Multi-Facility Economic Zone which is expected to add 100 megawatts to the national grid in 2019.
- Government will continue with the migration to cost reflective tariffs, to promote investment and growth in the electricity sub-sector, which will be informed by a study which is currently underway.

### **Enhancement of the Petroleum sub sector**

- Government will take to parliament the Petroleum Management Bill which is expected to enhance the regulatory framework governing the Petroleum sub-sector. Among other things, the Bill is expected to enhance participation of private sector in the procurement and financing of petroleum products.

## Industrialisation

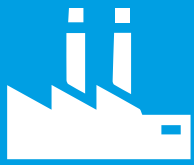
Government embarked on setting up Multi Facility Economic Zones, Industrial Parks and other support infrastructure. The actualized investment is estimated at US\$ 3.3 billion with 15 000 jobs created.

### **Value addition**

- Government through the Industrial Development Corporation will make investments in pineapple processing, fruit processing and cashew nut processing in North Western, Eastern and Western Provinces respectively.
- Further Government will roll out an out grower scheme for palm oil trees in Muchinga Province to boost national capacity to produce edible oils.

### **National Local Content Strategy**

- Government is looking to foster business linkages between micro, small, medium and large enterprises.
- The strategy also promotes the use of at least 35% locally available inputs in industrial processes.





## **Dependence on rain fed agriculture**

- In an effort to reduce dependence on rain fed agriculture and promote all year round production, as well as climate smart agricultural practices, the Government will continue to develop irrigation infrastructure.
- The Government hopes to finalise the irrigation infrastructure at Mwomboshi in Chisamba, Musakashi in Mufulira and Lusitu in Chirundu in 2019.

## **Implementation of the E-Voucher**

- The implementation of the e-voucher faced a number of challenges during 2017/2018 farming season which included among others; telecommunication connectivity, financial services provision and limited information technology. For 2018/2019 government will procure and distribute inputs to affected parts of the country.

## **Mechanisation**

- The establishment of a US\$ 100 million tractor assembly plant in the Lusaka South Multi Facility Economic Zone will provide a cheaper source for equipment to accelerate the mechanisation of farming, which is essential for improving productivity.

## **Land acquisition in farm blocks**

- Government has revised the guidelines for land acquisition in farm blocks to foster Public Private Partnerships in the development of infrastructure.

## **Revision of Seed Regulations**

- In 2018, the Government revised Seed Regulations to support exports of agricultural products and harmonise them with requirements under the Common Market for Eastern and Southern Africa, Southern African Development Community and Organization for Economic Co-operation and Development.
- Further, Government intends to revise the Food Reserve Act in 2019 to enhance sustainability and efficient management of national strategic food reserves.

## **Market for livestock products**

- Government will continue focusing on breed improvement through stocking and restocking, artificial insemination and construction of infrastructure.
- Government will facilitate access to both local and foreign markets for livestock products with strategic focus on the export of goats to Saudi Arabia.



## **Border Management control**

- Government intends to enhance the border management system through legislation review which among others will include the use of a National Electronic Single Window for trade facilitation through single payment points to avoid multiple interventions at the borders.
- Government is developing a One Stop Border Post at Kazungula which is scheduled to be completed in 2019.



## **Policy focus**

- Diversification of tourism products and promoting domestic tourism.

## **Lengthen tourist stay**

- Government intends to lengthen tourist stay to an average six days from the current four days.

## **Access to Wildlife and tourist sites**

- Government intends to rehabilitate and maintain roads within the major national parks.

## **International conference Tourism**

- In 2019, Government will commence the upgrade and expansion of the Mulungushi International Conference Centre to enable the country host the African Union Heads of state Summit scheduled for 2022.

## Access to Education and Skills

- The Government will in 2019 continue upgrading, constructing and rehabilitating facilities at all levels of education.
- A programme to upgrade 500 existing basic schools to secondary schools will be undertaken from 2019 to 2022 using low construction designs.
- 82 high schools are expected to be constructed across the country through the World Bank supported Zambia Education Enhancement Project.

## Teacher Professional Development

- Government will embark on major programmes for pre and in service training for teachers and provision of teaching and learning materials.

## Two tier system

- Government will continue to implement the two tier system which offers learners an opportunity to follow either an academic or vocational career path. In 2019 the Government will provide additional training infrastructure in selected secondary schools to scale up skills training.

## Distortions in the labour market

- Government will in 2019 carry out a skills demand and supply survey to form the basis for designing curricula for skills development and maintaining an inventory of skills in the country.



# Health

## Quality of Health

- Government will in 2019 continue constructing health facilities and recruiting front line staff across the country.
- Government has embarked on a programme of establishing specialised health training facilities in the country and Levy Mwanawasa Teaching Hospital has been earmarked to become a regional training facility.

## Reduction of Mortality rate

- Focus will be placed on reducing maternal, infant and child mortality through provision of emergency, obstetric and neonatal care equipment, supply of vaccines and food supplements for children.

## National Health Insurance

- Government will in 2019 commence the implementation of the National Health Insurance Act No. 2 of 2018 in a phased manner. The aim is to ensure universal access to quality healthcare services.



## **Fiscal Policy**

Government intends to prioritise spending on social protection and allocations to the social sectors in general. The following key measures will be undertaken by Government:

- Significantly reduce expenditure on administrative parts of the public service in order to prioritise allocations to key service delivery expenditures.
- Controlling wage bill growth by restricting recruitment to 3 500 frontline personnel (sales or service personnel).
- Ensuring completion of existing projects in an effort to scale down domestically financed capital expenditure. Projects that are at least 80 percent complete will be prioritised.
- Domestic resource mobilization will be increased to 18.7% of the GDP.
- Domestic borrowing will be curtailed from 4% to 1.4% of the GDP.

The following measures will be undertaken in an effort to broaden the tax base and enhance compliance levels:

- Digitalise the entire revenue collection process.
- Enhance system interface between the Zambia Revenue Authority and other institutions in an effort to ensure tax payer compliance management is improved.
- The Rating Act will be reviewed to facilitate the mass valuation of properties to ensure that appropriate taxes and fees are collected.
- Establish a Land Management Authority that will be tasked with all matters relating to land management and titling.
- Lift the ban on all timber exports and establish a public auction mechanism for timber.
- Undertake a review of all existing tax exemptions. This will entail monitoring all investors enjoying tax exemptions to ensure that they have fulfilled their investment pledges.
- The Public Finance Management Act was enacted in 2018 for the purpose of supporting and anchoring fiscal prudence.

## **Monetary and Financial Sector Policies**

- Government intends on maintaining the annual inflation rate within the 6% to 8% range.
- The Deposit Insurance Bill will be tabled for legislation in 2019

for the purpose of enhancing stability of the financial sector as it provides protection to the depositors.

- The Credit Reporting Act and the Moveable Property (Security Interest) Act will be implemented in an effort to help reduce the risks associated with information asymmetry on borrowers.
- The National Financial Switch will be operationalized to further reduce the cost of financial services and modernize payment systems. This will further facilitate the integration of automated teller machines, points of sale terminals, mobile and internet banking transactions. This will be carried out in two phases:
  - ♦ Phase 1 will facilitate the settlement and clearance of automated teller machines and point of sale transactions; and
  - ♦ Phase 2 will cover mobile payments.
- A Primary Dealership System will be introduced in 2019 in an effort to increase liquidity and enhance price discovery in the Government bond market.

## **Insurance**

- Section 120 of the Insurance Act will be reinforced. The section prohibits the placement of Zambian business with companies that are not licensed in Zambia.

## **Decentralisation**

- Government is devolving some functions to the local authorities in accordance with the Constitution (Amendment) Act No.2 of 2016.
- The Human Resource Management Reform Programme has been implemented in support of the devolution process.

## **Business Regulatory Reforms**

- Regulatory Service Centers have been established in Kitwe and Chipata in an effort to reduce the cost of doing business.

## **Labour law Reforms**

- Labour Laws are being harmonized by consolidating the Employment Act, the Employment of Young Persons and Children Act, and the Minimum Wages and Conditions of Employment Act into a single Labour Code. The Bill will be tabled in 2019.
- The Labour and Industrial Relations Act is being amended in an effort to enhance industrial relations. The Bill will be tabled in 2019.

# Other Policy Initiatives (con't)

- Government is developing the National Productivity Policy, which will be finalized in 2019. The objective of the policy is to enhance competitiveness, improve living standards and accelerate economic growth.

## **Public Investment Management Reforms**

- A Multi-sectoral Public Investment Board will be established in 2019. The objective of the Board will be to scrutinize investment proposals prior to inclusion in the Budget.

## **Census of Population and Housing**

- A Census of Population and Housing will be undertaken in August 2020. The objective of the census will be to get an understanding of the distribution of people, their living conditions and other critical key data.
- The census will use an electronic data collection method to improve efficiencies.

## **Rebasing of Gross Domestic Product**

- An exercise to rebase the Gross Domestic Product will be undertaken in 2019.
- This will provide an opportunity to update and develop appropriate social and economic indicators that may be used to measure progress in achieving the objectives under the National Development Plans and the Sustainable Development Goals.

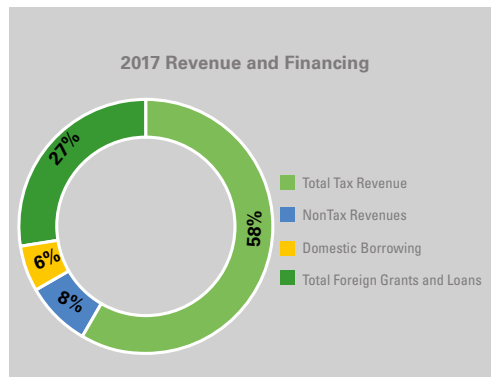
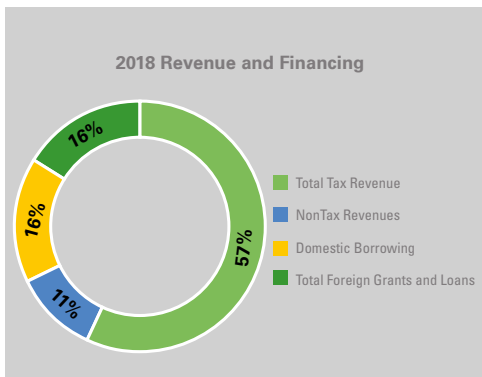
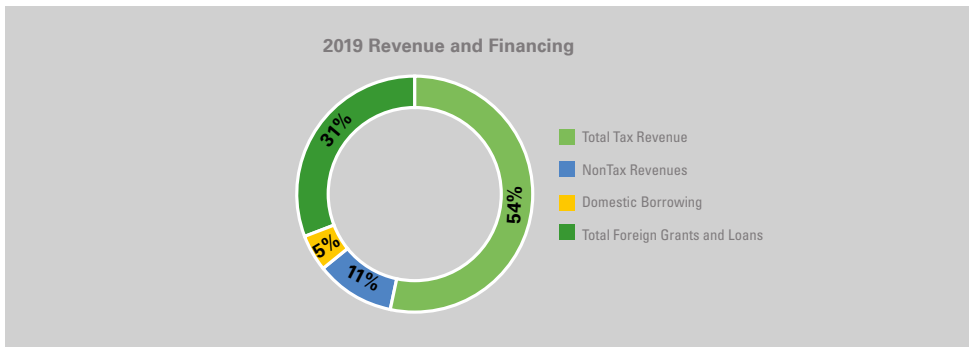
## **State Owned Enterprises**

- ZESCO Limited, Zamtel Limited, Zambia Daily Mail and Times of Zambia will be restructured in 2019.
- Government will divest some of its shares to the private sector.
- Strategic equity partners will be invited into Indeni Petroleum Refinery Limited.
- ZSIC Life Limited and the Zambia Forestry and Forest Industries Corporation will be listed on the Lusaka Stock Exchange in 2019.

# The 2019 budget

The Government intends to spend ZMW 86.81 billion representing 18.7% of GDP which will be financed by:

- Domestic revenues amounting to ZMW 56.1 billion or 64.6% of the total budget.
- Grants from various cooperating partners amounting to ZMW 1.9 billion or 2.2% of the total budget.
- Debt financing, both domestic and external, amounting to ZMW 28.8 billion or 33.2% of the total budget expenditure.



# The 2019 budget (con't)

Total Domestic Revenue, Grants and Financing				
Description	2019	2018	2017	2016
	ZMW 'million	ZMW 'million	ZMW 'million	ZMW 'million
<b>1 Total Tax Revenues</b>	<b>46,956.57</b>	<b>41,139.78</b>	<b>37,622.46</b>	<b>30,410.30</b>
<i>Direct Taxes</i>	<i>23,291.35</i>	<i>20,337.61</i>	<i>17,756.98</i>	<i>14,384.30</i>
Company Tax	7,221.61	6,115.94	4,858.31	3,283.10
Other Income Tax	4,648.74	3,957.64	3,083.38	3,166.80
PAYE	11,421.00	10,264.02	9,815.29	7,934.40
<i>Value Added Tax</i>	<i>14,862.48</i>	<i>12,369.47</i>	<i>9,463.34</i>	<i>9,893.50</i>
Domestic VAT	-	-	-	1,503.40
Import VAT	-	-	-	8,390.10
<i>Customs &amp; Excise Duty</i>	<i>8,410.79</i>	<i>8,098.70</i>	<i>7,992.62</i>	<i>6,132.50</i>
Customs Duty	3,537.75	3,302.25	3,224.20	2,488.90
Export Duty	4,723.89	51.62	68.41	-
Excise Duty	149.15	4,744.83	4,700.00	3,643.60
O/W Fuel Levy	-	-	-	-
Other revenues	391.95	334.00	518.58	-
<b>2 Non Tax Revenues</b>	<b>9,130.24</b>	<b>7,947.24</b>	<b>5,317.33</b>	<b>11,698.80</b>
Mineral Royalty Tax	4,887.60	3,527.74	1,890.94	2,889.10
Fees & Fines/ Exceptional	4,242.64	-	-	8,809.70
<b>3 Domestic Borrowing</b>	<b>4,164.21</b>	<b>11,153.29</b>	<b>3,836.20</b>	<b>2,509.50</b>
<b>4 Earmarked Bond Proceeds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Domestic Revenues &amp; Finance</b>	<b>60,251.02</b>	<b>60,240.31</b>	<b>46,775.99</b>	<b>44,618.60</b>
<b>6 Foreign Grants</b>	<b>1,924.18</b>	<b>2,438.30</b>	<b>2,231.47</b>	<b>545.90</b>
<b>7 Foreign Financing</b>	<b>24,632.70</b>	<b>8,983.78</b>	<b>15,502.84</b>	<b>7,971.30</b>
Project Loans	16,807.70	7,558.78	8,033.33	3,954.30
Programme Loans	7,825.00	1,425.00	7,469.51	4,017.00
<b>Total Foreign Grants and Loans</b>	<b>26,556.88</b>	<b>11,422.08</b>	<b>17,734.31</b>	<b>8,517.20</b>
<b>Total Revenue &amp; Financing</b>	<b>86,807.89</b>	<b>71,662.39</b>	<b>64,510.30</b>	<b>53,135.80</b>

# The 2019 budget (con't)

2019 Expenditure by Function						
Function	2019 Budget		2018 Budget		2017 Budget	
	ZMW 'million	Percentage of Budget	ZMW 'million	Percentage of Budget	ZMW 'million	Percentage of Budget
General Public Services	31,277.06	36.03%	25,898.03	36.10%	17,970.34	27.90%
Defence	5,072.43	5.84%	3,498.22	4.90%	3,204.45	5.00%
Public Order and Safety	2,865.51	3.30%	2,144.57	3.00%	2,342.97	3.60%
Economic Affairs	20,651.09	23.79%	17,258.33	24.10%	20,132.60	31.10%
Environmental Protection	875.10	1.01%	951.35	1.30%	616.47	1.00%
Housing and Community Amenities	2,238.70	2.58%	816.26	1.10%	822.81	1.30%
Health	8,069.13	9.30%	6,781.56	9.50%	5,762.03	8.90%
Recreation, Culture and Religion	297.27	0.34%	451.16	0.60%	323.5	0.50%
Education	13,274.55	15.29%	11,561.64	16.10%	10,641.93	16.50%
Social Protection	2,187.06	2.52%	2,301.26	3.20%	2,693.21	4.20%
Grand Total	86,807.89	100.00%	71,662.39	100.00%	64,510.30	100%

# The 2019 budget (con't)

## General public services

- The Government has budgeted to spend a total of ZMW 31.3 billion of the total budget towards general public services. ZMW 14.9 billion and ZMW 8.6 billion of this allocation will be spent on external and domestic debt payments respectively.
- ZMW 1.2 billion has been allocated to the Local Government Equalization Fund. Further, ZMW 249 million has been allocated to the Constituency Development Fund.

## Economic Affairs

- The Government has proposed to spend ZMW 20.7 billion or 23.8% of the budget on the Economic Affairs Function.
- ZMW 6.5 billion has been allocated to the development of road infrastructure which includes the continuation of the Link Zambia 8,000, and the rehabilitation and upgrading of feeder roads across the country.
- ZMW 1.4 billion has been allocated to the Farmer Input Support Programme.
- ZMW 672 million has been allocated to facilitate maintenance of the strategic food reserves at 500,000 metric tones.
- ZMW 182.4 million has been allocated to rural electrification.

## Education and Skills Development

- In 2019, the Government proposes to spend ZMW 13.3 billion on education and skills development.

## Health

- The Government proposes to spend a total of ZMW 8.1 billion. Of this amount, ZMW 900 million will be channeled towards the procurement of drugs and medical supplies, while ZMW 620 million has been allocated towards various medical infrastructure.

## Housing and community amenities

- The Government has proposed to spend ZMW 2.2 billion on housing and community amenities which includes ZMW 2 billion towards the rehabilitation and construction of water supply and sanitation infrastructure.

## Public order and safety

- Government has allocated ZMW 2.9 billion towards the maintenance of public order and safety.

## Social protection

- The Government has allocated ZMW 2.2 billion towards social protection expenditures including ZMW 1.1 billion for the public service pension fund and ZMW 899.5 million for the social cash transfer. In addition, the food security pack has been reduced to ZMW 110 million from ZMW 140 million.

## Other functionaries

- ZMW 5.1 billion has been allocated to defence up from ZMW 3.5 billion the previous year.
- ZMW 875.1 million has been allocated towards environmental protection.
- ZMW 297.3 million has been allocated to recreation, culture and religion.

# Domestic taxes

All proposed changes under Domestic taxes for the fiscal year 2019 are effective 1<sup>st</sup> January 2019.

## Pay As You Earn

### Exempt threshold

The exempt threshold remains the same in 2019 at ZMW 3 300 per month and ZMW 39 600 per annum.

### Marginal rate and tax bands adjustment

The marginal PAYE rate in 2019 will remain the same at 37.5%. The PAYE tax bands remain the same as indicated in the tables below.

Monthly					
Current PAYE bands – 2018			Proposed PAYE bands – 2019		
From	To	Tax rate	From	To	Tax rate
0	3 300.00	0%	0	3 300.00	0%
3 300.01	4 100.00	25%	3 300.01	4 100.00	25%
4 100.01	6 200.00	30%	4 100.01	6 200.00	30%
Above	6 200.00	37.5%	Above	6 200.00	37.5%

Annual					
Current PAYE bands – 2018			Proposed PAYE bands – 2019		
From	To	Tax rate	From	To	Tax rate
0	39 600.00	0%	-	39 600.00	0%
39 600.01	49 200.00	25%	39 600.01	49 200.00	25%
49 200.01	74 400.00	30%	49 200.01	74 400.00	30%
Above	74 400.00	37.5%	Above	74 400.00	37.5%

# Domestic taxes (cont)

## Presumptive tax for individuals operating public service vehicles

The presumptive tax for individuals operating public service vehicles remains the same as follows:

Vehicle Sitting Capacity	Current Tax per Annum (ZMW)
64 seater and above	10 800
50 - 63 seater	9 000
36 - 49 seater	7 200
22 - 35 seater	5 400
18 - 21 seater	3 600
12 - 17 seater	1 800
Below 12 seater	900

## Introduction of Sales Tax to replace Value Added Tax

The Government proposes to abolish VAT and replace it with Sales Tax effective 1<sup>st</sup> April 2019. Guidance on how the Sales Tax will be administered is yet to be provided.

# Domestic taxes (con't)

## Corporate income tax (non-mining)

The various year-on-year non-mining and proposed 2019 tax rates are indicated in the table below:

Category	Charge year		
	2019	2018	2017
Manufacturing and other	35%	35%	35%
Manufacturing - value added to copper cathodes	15% *	35%	35%
Manufacturing of organic fertilisers	15%	15%	15%
Manufacture of chemical fertilisers	15%	15%	15%
Farming	10%	10%	10%
Agro processing	10%	10%	10%
Companies listed on the Lusaka Stock Exchange (less 2% in first year of listing on LuSE/ less 5% for as long as one-third of shares are owned by indigenous Zambians)	35%	35%	35%
Public benefit organisations on business income	15%	15%	15%
Non-traditional exports	15%	15%	15%
Export of non-traditional export from farming or agro - processing	10%	10%	10%
Commercial imports (advance income tax)	15%	15%	15%
Insurance premium levy	3%	3%	0%
Skills development levy	0.5%	0.5%	0%
Tourism levy	1.5%	1.5%	0%
<b>Telecommunications companies</b>			
up to ZMW250 000	35%	35%	35%
excess of ZMW250 000	40%	40%	40%
<b>Carry forward of tax losses</b>			
Electricity generation by Hydro and thermal power	10 years	10 years	10 years
Electricity generation using other sources except wood	5 years	5 years	5 years
All other non-mining companies	5 years	5 years	5 years

# Domestic taxes (con't)

## Corporate income tax (non-mining)

Category	Charge year		
	2019	2018	2017
<b>Capital allowances deductions</b>			
Investment/initial allowance on new industrial buildings	10%	10%	10%
Industrial building allowance	5%	5%	5%
Plant & machinery used in manufacturing & tourism	50%	50%	50%
Implements, machinery & plant used in the generation of electricity	50%	50%	50%
Plant, equipment and machinery used in farming and agro - processing	100%	100%	100%
Commercial buildings	2%	2%	2%
Commercial motor vehicles & other plant and machinery	25%	25%	25%
Non-commercial motor vehicles	20%	20%	20%
Farm works/improvements & improvement allowance under Multi Facility Economic Zones only	100%	100%	100%
<b>Capital allowances to be provided on an annual basis irrespective of how accounts are drawn or prepared</b>			
<b>Interest allowable on debts owed will be limited to 30% of earnings before interest, tax depreciation and amortisation (EBITDA) for purposes of company tax*</b>			

\* 2019 Proposed Budget Changes

# Domestic taxes (cont)

## Corporate income tax (mining)

The table below shows the various year-on-year tax rates and the proposed 2019 changes.

Category	Charge year		
	2019	2018	2017
Mining – Base Metals/Gemstones/Precious Metals	30%	30%	30%
Mineral processing	30%	30%	30%
<b>Mineral royalty rates</b>			
Mineral royalty tax scales on base metals			
\$1- \$4,449	5.5% *	4%	5%
\$4,500 - \$5,999	6.5% *	5%	5%
\$6,000 - \$7,499	7.5% *	6%	5%
\$7,500 and above	10% *	6%	5%
Mineral royalty on precious metals	6%	6%	6%
Mineral royalty on gemstones	6%	6%	6%
Mineral royalty on cobalt	8% *	5%	5%
Mineral royalty tax is a non-deductible levy for income tax purposes*			
Persons in possession of minerals to account for mineral royalty			
<b>Capital allowances deductions</b>			
Mining equipment & related capital expenditure (claim when asset is brought into use)	25%	25%	25%
Commercial motor vehicles & other plant and machinery	25%	25%	25%
Non-commercial motor vehicles	20%	20%	20%
Use average Bank of Zambia (BOZ ) mid rate for computing indexed losses and capital allowances			
<b>Carry forward of tax losses</b>			
Mining operations	10 years	10 years	10 years
Prospecting & exploration	5 Years	5 Years	5 years
Import duty on certain mining equipment	Rebate	Rebate	Rebate
VAT deferment scheme (annual application)	Yes	Yes	Yes
<b>Other rates</b>			
Withholding tax on dividends	0%	0%	0%

# Domestic taxes (cont)

## Corporate income tax (mining)

Category	Charge year		
	2019	2018	2017
Export duty on Copper & Cobalt concentrates	10%	10%	10%
Import duty on copper and cobalt concentrates	5% *	0%	0%
Export duty on precious metals and gemstones	15% *	0%	0%
Export duty on manganese ores and concentrates	15% *	10%	10%
Thin capitalisation threshold – Debt to equity ratio	EBITDA*	3:1	3:1
Taxation of hedging income	35%	35%	35%
Property transfer tax on sale or transfer of land or shares	5%	5%	5%
Property transfer tax on sale or transfer of mining rights	10%	10%	10%

\* 2019 Proposed Budget Changes

# Domestic taxes (cont)

## Filing of tax returns

### Tax Calendar

2019 Charge year	Due Date
<b>Corporate tax</b>	
Submission of provisional income tax return (electronic)	31-Mar-19
Submission of income tax provisional tax return (manual)	5-Mar-19
Payment of first quarter provisional tax installment	10-Apr-19
Payment of second quarter provisional tax installment	10-Jul-19
Payment of third quarter provisional tax installment	10-Oct-19
Payment of fourth quarter provisional tax installment	10-Jan-20
Submission of annual tax return for 2018 and payment of balance of tax (electronic)	21-Jun-19
Submission of annual tax return for 2018 (manual)	5-Jun-19
<b>2018 Charge year</b>	
<b>Corporate tax</b>	
Submission of provisional income tax return (electronic)	31-Mar-18
Submission of income tax provisional tax return (manual)	5-Mar-18
Payment of first quarter provisional tax installment	10-Apr-18
Payment of second quarter provisional tax installment	10-Jul-18
Payment of third quarter provisional tax installment	10-Oct-18
Payment of fourth quarter provisional tax installment	10-Jan-19
Submission of provisional tax returns following registration after 31st March 2018	90 days after the registration date
Submission of annual tax return for 2017 and payment of balance of tax (electronic)	21-Jun-18
Submission of annual tax return for 2017 (manual)	5-Jun-18
<b>Others</b>	
Mineral Royalty return and payment	14th of the following month
PAYE monthly return and payment	10th of the following month
Premium levy return	18th of the following month
Premium levy payment	18th of the following month
Property transfer tax	14 days from assessment
Transfer Pricing Policy documentation compliance for 2018 charge year	21 June 2019
Tourism Levy	14th of the following month
VAT return and payment	18th of the following month
WHT VAT return and payment	16th of the following month
Withholding tax payments and certificate	14th of the following month

# Domestic taxes (con't)

## Other Domestic taxes

The various year-on-year withholding tax and other taxes and capital allowances rates are provided in the table below:

Category	Year		
	2019	2018	2017
<b>Withholding tax and other rates</b>			
Non-mining dividend pay-outs	20% *	15%	15%
Profits distribution by branches of foreign companies	20% *	15%	15%
Management and consultancy fees to residents	15%	15%	15%
Management and consultancy fees to non-residents	20%	20%	20%
Royalties to non-residents	20%	20%	20%
Interest for individuals on savings and deposit accounts	0%	0%	0%
Interest on Treasury Bills for Individuals (Final tax)	15%	15%	15%
Interest on Treasury Bills (Final tax for Public Benefit Organisations)	15%	15%	15%
Interest on Government Bonds (Coupon Income)	15%	15%	15%
Interest payable to non-residents	20% *	15%	15%
Commissions to non-residents	20%	20%	20%
Public Entertainment fees to Non-Residents (Final tax)	20%	20%	20%
Non-Resident Contractors	20%	20%	20%
Rentals (Final tax)	10%	10%	10%
Property transfer tax on intellectual property	5%	5%	0%
Property transfer tax (Indirect control/ ownership change in a foreign country of an interest in a Zambian asset)	5%	5%	0%
NAPSA tax allowable threshold/month	ZMW0	ZMW0	ZMW255
<b>Winnings from gaming, lotteries and betting</b>			
Casino live games	20%	20%	20%

# Domestic taxes (con't)

## Other Domestic taxes

Category	Year		
	2019	2018	2017
Casino machine games	35% *	20%	20%
Lottery winnings	35% *	20%	20%
Betting	10% *	20%	20%
Gaming - per machine per month	ZMW 250 - ZMW 500*	ZMW 0	ZMW 0
The Zambia Revenue Authority is the interim regulator for the gaming industry			
<b>Turnover tax</b>			
Threshold	Up to ZMW 800 000	Up to ZMW 800 000	Up to ZMW 800 000
Standard rate	4% *	Graduated	Graduated
<b>Turnover tax under declaration penalties</b>			
Penalty for negligence	1.50%	1.50%	1.50%
Penalty for late return	ZMW 150	ZMW 150	ZMW 600
Penalty for willful default	3%	3%	3%
Penalty for fraud	4.50%	4.50%	4.50%
<b>Carbon tax</b>			
Motor cycles	ZMW 50	ZMW 50	ZMW 50
Engine size greater than 1 500cc	ZMW 50	ZMW 50	ZMW 50
Engine size between 1 500cc and 2 000cc	ZMW 100	ZMW 100	ZMW 100
Engine size between 2 000cc and 3 000cc	ZMW 150	ZMW 150	ZMW 150
Engine size over 3 000cc	ZMW 200	ZMW 200	ZMW 200
<b>Carbon tax for transiting Vehicles *</b>			
Motor cycles	USD 10 or ZMW Eqv*		
Engine size greater than 1 500cc	USD 10 or ZMW Eqv*		
Engine size between 1 500cc and 2 000cc	USD 20 or ZMW Eqv*		
Engine size between 2 000cc and 3 000cc	USD 30 or ZMW Eqv*		
Engine size over 3 000cc	USD 40 or ZMW Eqv*		

\* 2019 Proposed Budget Changes

# Domestic taxes (con't)

## Direct tax penalties and interest

Penalties			
Description	Company	Individual	Interest
<b>Corporate tax and Mineral Royalty*</b>			
Late settlement*	5%/month or part thereof	5%/month or part thereof	2% + Bank of Zambia discount rate
Underestimation of tax by less than two thirds of final tax	25%	25%	Nil
Late lodging of return*	ZMW 600/month or part thereof	ZMW 300/month or part thereof	Nil
<b>Withholding Tax, PAYE &amp; Individual tax</b>			
Late settlement	5%/month or part thereof	5%/month or part thereof	2% + Bank of Zambia discount rate
Late lodging of return	ZMW 600 per month	ZMW 300 per month	Nil
<b>Withholding Tax On Rent</b>			
Late lodging of return	ZMW 102 per month	ZMW 51 per month	Nil
<b>Turnover Tax</b>			
Late lodging of return*	ZMW75/month or part thereof	ZMW 75/month or part thereof	Nil
<b>Value Added Tax</b>			
Late settlement	0.5% of tax due per day	0.5% of tax due per day	2% + Bank of Zambia discount rate
Late lodging of return	Higher of ZMW 180 and 0.5% of tax due per day	Higher of ZMW 180 and 0.5% of tax due per day	Nil
<b>Category</b>	<b>Year</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Transfer Pricing regulations</b>			
Non-compliance	ZMW 24 000 000*	ZMW 3 000	N/A
<b>Skills Development Levy</b>			
Negligence	0.25%*	N/A	N/A
Wilful default	0.5%*	N/A	N/A
Fraud	0.75%*	N/A	N/A

# Customs and Excise duty

All proposed changes under customs and excise are effective 1<sup>st</sup> January 2019.

The following changes in customs and excise have been proposed for the 2019 fiscal year:

- **Excise duty on non-alcoholic beverages** - Introduce excise duty of 30 ngwee per litre.
- **Excise duty on plastic carrier bags** - Increase excise duty from 20% to 30%.
- **Import duty on LED lights** - To be suspended.
- **Customs duty on used and re-treaded tyres** - To increase customs duty from 25% or K3.00 per Kg to 40% or K5 per Kg.
- **Customs duty on powdered milk (in bulk for further processing)** - To increase customs duty from 5% to 15%.
- **Export duty on raw hides and skin** - Introduce an export duty of 10 % and lift the ban on exports on these items.
- **Customs duty rebates on the construction of shopping malls** – To be removed.
- **Returning residents** - The required period of absence for a returning resident to qualify for a rebate on duty payable on a motor vehicle per household to be increased from 2 years to 4 years.
- **Import duty on copper and cobalt concentrates** - Introduce import duty of 5%.
- **Export duty on precious metals and precious stones** – Introduce an export duty of 15%.
- **Export duty on manganese ores and concentrates** – Increase export duty from 10% to 15%.
- **Customs and excise duty on ciders to be the same as that of lagers** – Harmonise treatment of ciders with that of lagers. Currently, ciders attract customs duty of 25% and excise duty of 60% while lagers attract customs duty at the rate of 25% and excise duty at the rate of 40%.
- **Customs duty on used motor cycles** – Introduce a customs duty of 25%.
- **Customs duty for finished (soap) products and products for further processing** – Increase duty rate from 5% to 25%.
- **Customs and Excise on vehicles that were not included In the Third Schedule to be included** - Include vehicles with engine capacity of less than 1000cc and station wagons and double cabs of gross vehicle weight of less than 3 tons.
- **ASYCUDA processing fee** - Increase fees from ZMW 324 to ZMW 500.
- **Integrated Border Declaration Form** - Persons transiting through Zambia are to use this form for the dispensation of a bill of entry for personal vehicles used in Zambia.
- **Customs and Excise for arriving passengers** - Purchase of goods will be extended to duty free shops situated in the arrival halls at international airports in Zambia. The purchase will be limited to the value allowable under the travellers' rebate.
- **Importations of gaming machines and equipment** - To be accompanied by a valid license from the regulator.
- **Penalty regime (Customs and Excise Act)** - Introduces a penalty regime for offences committed by providers of excisable services.

# Other information

## Investment incentives available from the Zambia Development Agency

Investors should note that there are no limits on the amount of investment required to be made for the purpose of acquiring an investment license. However, there are some minimum investment thresholds required to qualify for certain benefits. Specifically, the investment should a minimum of:

- US\$250 000 in order to qualify for basic non tax incentives; and,
- US\$500 000 in order to qualify for special tax incentives for priority sectors located in a multi- facility economic zone, industrial park or a rural area.

### Priority sectors for investment incentives

#### Construction and establishment of infrastructure activities (excluding renovation, expansion and refurbishment), in particular:

- **Education** - construction of education and skills training institutions.
- **Health** - construction of health centres as defined under the Health Professions Act of 2009.
- **Tourism** - construction and establishment of hotels, convention centres, exhibition centres, museums, theme parks, art galleries and theatres
- **Housing** - development of fifty or more houses erected or maintained under one management or control on land developed specifically for the sitting of such houses in accordance with a comprehensive plan which provides for the laying out of roads and the furnishing and availability of services essential or

ancillary to the use of such building as houses.

- **Agriculture** - construction of crop and grain storage facilities.

### Energy and water development

- **Power** - building, installation of power stations and power generation (including solar power generation).
- **Fuel** - building and installation of processing and refinery plants for bio-fuel; construction of petroleum refineries; construction of pipelines; and construction of rural filling stations.
- **Water supply** - construction of depots; construction of dams; construction of irrigation canals; and construction of water and sewerage treatment plants.

### Available tax incentives

- 0% import duty on Plant, machinery and equipment acquired for an investment.
- Eligible investors will be able to claim on a straight line basis, for wear and tear at an accelerated rate, not exceeding 100% in respect of any new implement, plant or machinery acquired and used by the business for the purposes of that business.

### The Companies Act

- The Companies Act, Chapter 388 of the Laws of Zambia was repealed and replaced by the Companies Act No 10 of 2017 effective 15 June 2018. A summary of the key provisions of the new Act is provided below:

## Other information (con't)

- A company secretary must be a legal practitioner or a chartered accountant or a member of the Chartered Institute of Secretaries (except for a secretary of a small private company).
- The Act provides for the classification of companies as 'small private companies', subject to the criteria to be provided by applicable legislation.
- In addition to having a registered shareholder, the Act has introduced the concept of beneficial ownership of shares.
- Public companies are required to have at least three directors.
- Insolvency proceedings are now regulated by the Corporate Insolvency Act No. 9 of 2017.

A company now has the option of:

- only affixing its common seal to a deed (the Act now allows the use of electronic seals); or
- have two authorized signatories sign the deed; or
- have a director whose signature is attested by a witness sign the deed.
- Every company (except for a small private company) must appoint an auditor.

### Immigration

Type	Application cost	Renewal cost	Application time
Single entry visa	US\$ 50	US\$ 50	5 Working Days
Multiple entry visa	US\$ 80	US\$ 80	5 Working Days
Transit visa	US\$ 50	US\$ 50	5 Working Days
Day tripper visa	US\$ 20	US\$ 20	5 Working Days
Temporary employment permit	ZMW 4 5 00	ZMW 5 250	21 Working Days
Employment permit	ZMW 6 000	ZMW 7 000	21 Working Days
Temporary permit	ZMW 6 000	ZMW 5 250	21 Working Days
Investors permit	ZMW 4 000	ZMW 5 000	21 Working Days
Residence permit	ZMW 5 000	-	21 Working Days
Spousal permit	ZMW 750	ZMW 1 500	21 Working Days

# Other information (con't)

## Company incorporation requirements

Companies incorporation requirements	
1	Minimum of 2 Directors (3 for public companies); 50% of the directors should be resident in Zambia
2	Minimum of 2 shareholders; these may be individuals or entities
3	Minimum share capital of ZMW 15 000
4	Proposed registered address
5	Secretary

## Tax registration requirements

Tax registration requirements	
1	Certificate of incorporation of the company
2	Certificate of share capital of the company
3	Articles of association of the company
4	A map (sketch) of your business location
5	Tenancy agreement for the business premises
6	A printout of your bank account in Zambia showing the funds currently available in the account
7	A business plan and projected cash flow for a period of one year

## Double taxation treaties

The rate of withholding tax deductible on payments may be reduced where there is a tax treaty in place between Zambia and the recipient country.

# Other information (con't)

## Double taxation treaties

Country	Dividends (%)	Interest (%)	Royalties (%)	Management fees (%)
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***
Ireland	7.5%	10%	10%	Nil
Italy	5%/15%**	10%	10%	Nil
Japan	Nil	10%	10%	Nil
Kenya	20%*****	20%*****	20%*	20%*
Mauritius	5%/15%**	10%	5%	Nil
Netherlands	5%/15%**	10%	10%	Nil
Norway	15%	10%	15%	Nil
Romania	10%	10%	10%	Nil
South Africa	20%*****	20%*****	20%*	20%*
Sweden	5%/15%**	10%	10%	Nil
Switzerland	5%/15%**	Nil	Nil	Nil
Tanzania	20%*****	20%*****	20%*	20%*
Uganda	20%*****	20%*****	20%*	20%*
United Kingdom	5%/15%**	10%	10%	Nil

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

\*\*\*\*\*These rates are effective 1 January 2019

## CONTACT US

### Current Address

First Floor, Elunda 2  
Addis Ababa Roundabout  
Rhodes Park  
Lusaka

### Address from 1<sup>st</sup> November 2018

Sixth Floor, Sun Share Tower  
Plot No. 15584/2, Katima Mulilo Road  
Olympia Park  
Lusaka

### Jason Kazilimani

Senior Partner & Chief Executive Officer  
T: +260 211 372 900  
E: jkazilimani@kpmg.com

### Michael Phiri

Director Tax  
T: +260 211 372 900  
E: mphiri@kpmg.com

### Maaya Chipwayambokoma

Partner Audit  
T: +260 211 372 900  
E: mchipwayambokoma@kpmg.com

### Victor Sitabule

Partner Audit  
T: +260 211 372 900  
E: victorsitabule@kpmg.com

### Sergio de Castro

Director Advisory  
T: +260 211 372 900  
E: sergio.decastro@kpmg.co.za

## Our values

We lead by example

We work together

We respect the individual

We seek the facts and provide insight

We are open and honest in our communication

We are committed to our communities

Above all, we act with integrity



[www.facebook.com/kpmgzambia](https://www.facebook.com/kpmgzambia)



[twitter.com/kpmgzambia](https://twitter.com/kpmgzambia)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in future. No one should act on such information without appropriate professional advice after a thorough examination of their particular situation.

© 2018 KPMG Zambia Limited, a Zambian member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved.

The KPMG name, logo and 'the clear choice' are registered trademarks of KPMG International Cooperative (KPMG International).