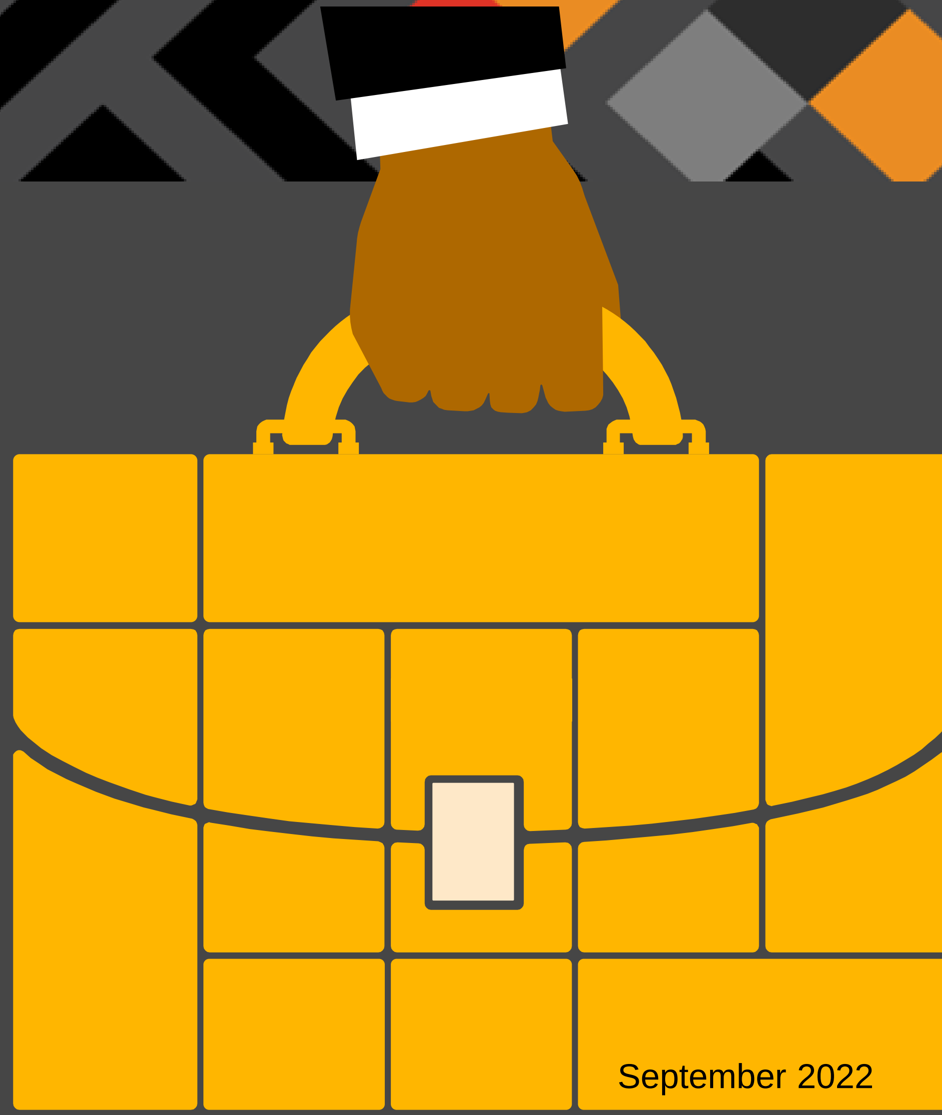
Resetting for growth

2023 National Budget Bulletin



September 2022

In this bulletin………

Commentary

1

Commentary

The UPND Government's second budget builds on the ruling party's ambitious plans to transform Zambia's struggling economy

With an IMF deal now agreed, the 'New Dawn' Government has used the 2023 budget to cement existing economic policy which, if successful, should turn the country's ailing economy around and transform the livelihoods of its citizens.

In this year's budget, titled *Stimulating Economic Growth for Improved Livelihoods*, the Minister of Finance, Hon Dr Situmbeko Musokotwane, MP, has announced increased social sector spending and further incentives to stimulate private sector development.

This private sector-driven approach is consistent with the UPND's economic policy framework outlined in its party manifesto, the Eighth National Development Plan (8th NDP) and the Medium Term Budget Plan (MTBP). The Government hopes that offering concessions to the private sector will attract investment, create more jobs and stimulate broader economic activity, allowing for greater social spending. If sustained, the Government's consistent policy approach should help deliver the benefits of economic recovery to ordinary citizens.

Next step: restructuring debt

The UPND's economic reform plan was the basis of the IMF's approval of a US$1.3 billion, 38-month extended credit facility (ECF) in August 2022. The IMF's support has given Zambia some much-needed fiscal space and should enable the Government to renegotiate Zambia's US$14.9 billion (as at end of June 2022) public external debt with creditors under the G20 Common Framework for debt treatment.

As yet, there is scant detail as to what this restructuring will look like, but Zambia has reportedly requested a US$8.4 billion debt write off, which equates to 56% of the total public external debt as at June 2022. Some K18.2 billion has been set aside for external debt servicing in the 2023 budget, which is significantly lower than the K51.3 billion allocated in 2022. The Hon. Minister has said this will be subject to change once a restructuring agreement is reached, so some further fiscal space may be created.

Questions arise if we look at the allocation to debt repayment in 2023 more closely.

Firstly, we know that the 2022 allocation to external debt service, after adjustment for the supplementary budget, was approximately K29 billion. The 2023 budget allocation is K18.2 billion. How has the Hon. Minister achieved this reduction?

Secondly, due to the ongoing debt service standstill, the stock of central Government external debt as at June 2022 stood at a total of US$2.67 billion in principal and arrears. This non repayment of debt, which includes the US$750 million principal bond repayment, should have created additional fiscal space. It would be good to understand why the country has a higher than planned fiscal deficit for 2022 (9.8% of GDP) despite not making the debt service payments that were budgeted for.

Commentary

Subsidy removal to fund concessions and social spending

As part of the IMF deal, the Government has ceded management of the importation and supply of petroleum products to the private sector and reintroduced VAT and excise duty on fuel, effectively removing fuel subsidies. Government's role will now be limited to that of regulator and ensuring cost reflective pricing.

By reintroducing VAT and excise duty on fuel and other commodities, the Government projects it will raise an additional K9 billion in 2023, which frees up resources for social spending and private sector incentives.

Human and social development

Social spending has risen sharply in the 2023 budget, with the Hon. Minister allocating an additional K10.6 billion to education, health and social protection next year compared to 2022.

In 2023, K23.2 billion, which is just under 14% of the total budget, will be invested in education. Free education up to grade 12 was introduced by the UPND Government when it came to power last year August. In addition, over 30,000 teachers have been recruited this year, with a further 4,500 to be enlisted in 2023. The Hon. Minister has also outlined plans in the 2023 budget to establish polytechnics and trade schools for skills training.

The health sector will receive K17.4 billion, or 10.4% of the budget in 2023. This will be spent on recruiting a further 3,000 health personnel in 2023, procuring drugs and medical supplies, buying equipment, and building and rehabilitating health facilities.

Meanwhile, the Government's allocation to social protection has increased from K6.3 billion in 2022 to K8.1 billion in 2023. Almost half of this, or K3.7 billion, will go into the social cash transfer scheme. Government plans to increase the scheme's beneficiaries from 880,539 in August 2021 to 1,374,000 in 2023. The rest of the money will be spent on the food security pack, pensions and retirement benefits.

Commentary

Continued incentives for private sector growth

Consistent with the 8th NDP, the Government has continued to incentivise the private sector in an effort to grow productive areas of the economy. Key beneficiaries of this year's budget include:

Mining

Mining is again a big winner in this year's budget. The mineral royalty rate regime has been restructured to tax only the incremental value in price at the various thresholds. This structure is akin to that applied under PAYE and will smooth out the impact of price fluctuations. The measure will result in a tax loss of K2.8 billion. Meanwhile, property transfer tax payable on the transfer of mining exploration rights has been reduced from 10% to 7.5% to encourage exploration activities

Agriculture

The Hon. Minister announced in the budget that the Government is reforming the Fertiliser Input Subsidy Programme (FISP) to include extension service support, irrigation development and access to finance, among other things. The new programme will be called the Comprehensive Agriculture Support Programme and will receive K9.1 billion of next year's budget, which is much more than the K5.4 billion FISP was allocated in 2022.

Government plans to recruit 256 additional extension officers and supporting equipment to target an extra 1.5 million smallholder farmers in 2023. It will also build 16 new dams to support irrigation, and establish farming blocks around the country to increase agricultural output and create jobs

Manufacturing

Multi-facility economic zones (MFEZ) remain a key part of the Government's transformation plan. The Hon. Minister has proposed a number of tax concessions to boost investments in corn starch production. The Hon. Minister has also announced a 50% suspension of excise duty on clear beer made with cassava and/or malt over and above specified production levels.

Pay-As-You-Earn

In an effort to increase disposable income, the Hon. Minister has amended the PAYE regime by increasing the exemption threshold by K300 to K4,800 and adjusting the tax bands. This measure is expected to increase personal disposable income by a maximum of K425 per month.

Other notable concessions include:

Tourism: The Hon. Minister has continued the suspension of customs duty on selected capital equipment imported into Zambia and waived visa fees chargeable to visitors from a number of countries.

Telecommunications: The two-tier corporate income rate has been abolished in favour of a single rate of 35%.

Insurance: The 15% withholding tax on investment income on life insurance funds has been removed to promote the uptake of products and services.

Betting and gaming: The Hon. Minister has reduced withholding tax on winnings by 5% and cut the presumptive tax chargeable on land-based betting companies from 25% to 15%. Considering the non-productive nature of this industry, such concessions appear out of sync with the Government's broader approach to economic policy.

Enhancing tax administration

It is well documented that the Government is making improvements to tax administration, including the implementation of a comprehensive tax payer compliance programme based on data analytics. Our understanding, based on the IMF ECF, is that this takes into account past technical assistance recommendations, including those received through the Tax Administration Diagnostic Assessment Tool. It is hoped that these improvements will address past challenges relating to the roll-out of Electronic Fiscal Devices and the performance of Tax Online.

Commentary

Public financial management

The Hon. Minister has announced measures in the budget designed to enhance internal controls, improve system functionality and develop financial reporting coverage. This includes the introduction of a Local Government Financial Management System and a Payroll Management and Establishment Control System.

At a policy level, the Government plans to develop a Public Financial Management Strategy for the period 2023-2026, review the Public Procurement Act of 2020, and amend the Constituency Development and Fund Act in order to streamline the approval process and give more decision-making power to local communities. This is vital if the planned 10% increment in the CDF allocation to each constituency to K28.3 million is to be a success.

Environmental sustainability

Tackling Zambia's high rate of deforestation is a priority in the 2023 budget. The Hon. Minister said in his budget speech that the Government will start setting up timber exchanges around the country next year to improve transparency in the timber trade. The first exchange will be in Nangweshi in Sioma District, Western Province.

Government is also developing a green bond market to stimulate investment in environmental and climate-related projects, and plans to create legislation to regulate the carbon market in line with the Kyoto Protocol on climate change. Meanwhile, the Government has signed a GBP1 billion green growth compact with the UK Government to facilitate investment in renewable energy, among other things.

Environmental sustainability is one of the four pillars supporting the UPND's economic transformation plan outlined in the MTBP. It is now critical that the Government and the private sector work closely together to hasten the drive of the green growth agenda.

Budget gaps

While the UPND Government's 2023 budget is rigorous in its alignment to the party's broader economic development policy, some areas integral to economic transformation and growth are light on detail.

Most notably, there is no update on Government progress with its five-year turn-around strategy for power utility ZESCO. The strategy, which covers the period 2021 to 2025, includes restructuring ZESCO's US$1.9 billion external debt (as at the end of March 2022) to make the utility company financially sustainable.

Also, while the Government has a long-term plan for new infrastructure through public-private partnerships, questions remain as to whether the K5.4 billion allocation towards road infrastructure is sufficient to meet ongoing maintenance needs.

Commentary

Conclusion

While the 2023 budget of K167 billion is lower than last year in absolute terms, when adjusted for monies allocated to debt repayment, the total spend on other areas of the economy has increased by 25%. This is welcome news for citizens.

This year's budget also gives us an idea of what we can expect living under an IMF programme, where resources freed up from debt restructuring and subsidy removal are channeled into social sectors, and incentives are offered to drive private sector growth.

The task of repairing the economy is not an easy one, however, and cannot be achieved quickly. Certain policies, such as the removal of subsidies, will likely translate into higher living costs, meaning some pain, at least in the short-term. Zambians will need to be patient and trust that in the longer term such policies will be for everyone's gain.

2

The economy

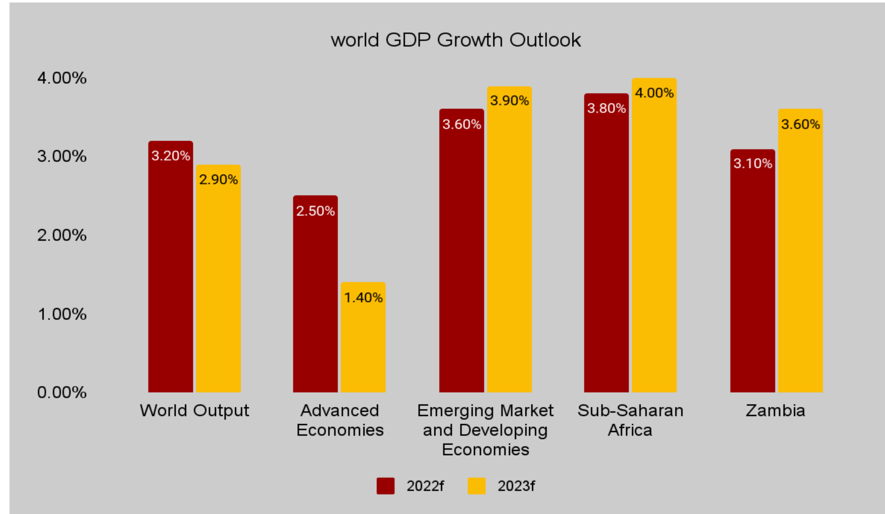
Global and regional economy

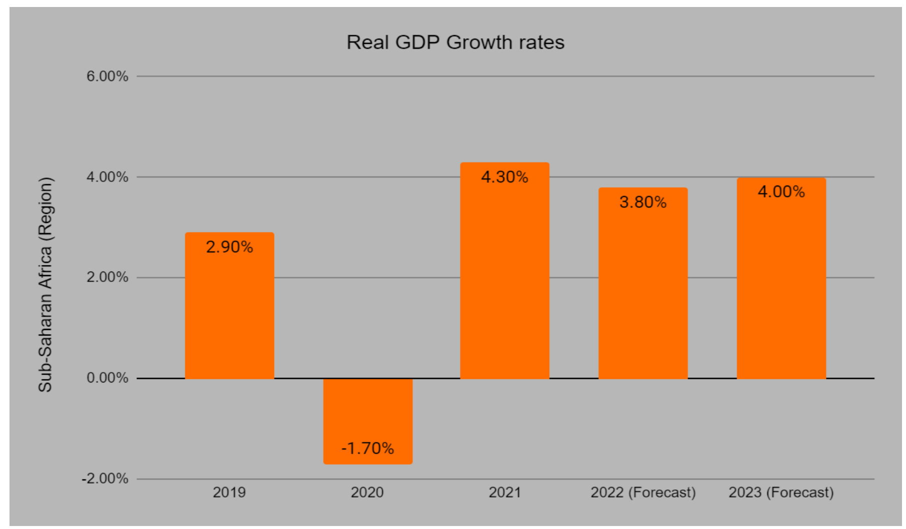
Global economy

The IMF, in July 2022 downgraded its outlook for the global economy projecting economic growth to 3.2% this year, down from the 4.9% it forecast in July 2021, owing to downturns in China and Russia and higher than expected inflation worldwide-specially in the United States and major European economies.

Sub-Saharan African Economy (SSA)

SSA's economic growth has slowed down in 2022, due to the global fallout of the Russian invasion of Ukraine. While most African countries have limited direct financial and trade deals with the affected economies, the decline in global economic growth alongside elevated commodity prices have created many headwinds for the SSA region. The high cost of staple foods and farming inputs is also negatively impacting the region. With all the above stated factors prevailing, the SSA economy is expected to grow by 3.8% in 2022 as assessed by the IMF.



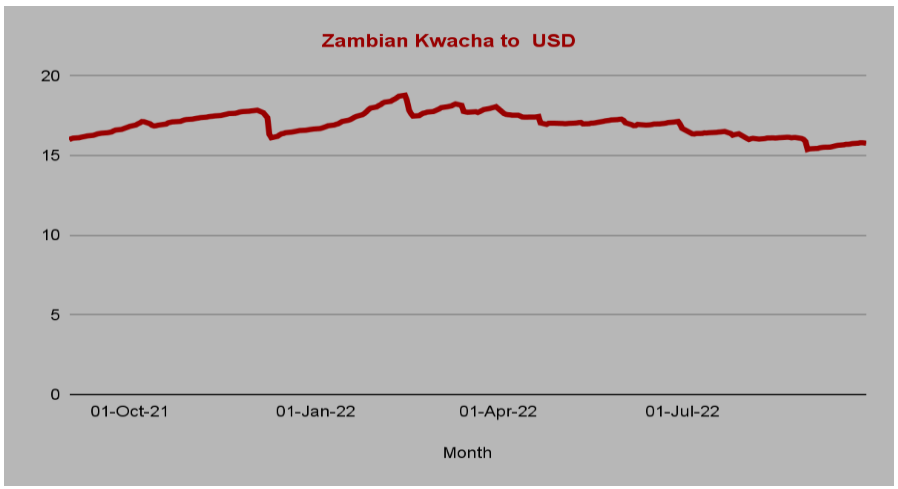


Source: IMF World Economic Outlook July 2022

State of the economy

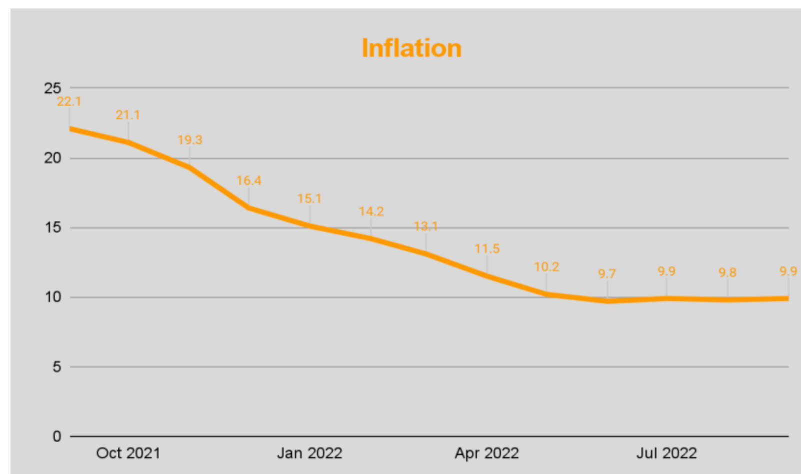
The economy has continued to grow though at a lower pace compared to 2021 recovery rate of 4.6%, this is owing to the poor performance in the agriculture and construction sectors. Key economic highlights include:

- ❖ Conclusion of the IMF deal
- ❖ Continued strengthening of the Kwacha against US dollar from K16 in September 2021 to K15.5 in September 2022
- ❖ Single digit inflation of 9.9%
- ❖ Projected GDP growth of 3.1%
- ❖ Expected increase in projected fiscal deficit from 6.7% to 9.8% of GDP
- ❖ Weakening copper prices to an average of US $7,422 per metric tonne in September 2022 from US $9,550 per metric tonne in December 2021.



Source: BOZ historical rate series

Source: IMF World Economic Outlook July 2022

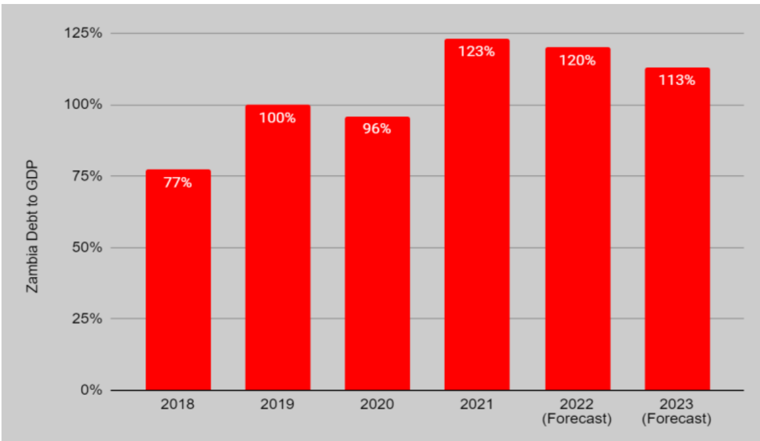


Source: zamstats publications September 2022

State of the economy

Debt restructure

Sealing the International Monetary Fund (IMF) deal to restructure Zambia's debt bailout package has enabled government to progress in managing the debt crisis which has soared significantly in the past few years:



Source: Trading economics

The expected impact of the IMF programme includes:

- Creating the breathing room required to increase targeted social spending in health and education while implementing fiscal reforms.
- Supporting the Zambian government's efforts to restructure external debt under the G20 Common Framework.
- Improving the country risk perceptions among credit agencies and international investors.
- Increased foreign capital inflows.
- An immediate disbursement of approximately US$185 million.

These reliefs are coupled with expected adjustments in order to maintain and sustain the programme:

- Elimination of implicit subsidies on fuel. In other words, reversing the reduced excise duties on petrol and diesel, and the policy decision to zero rate them for VAT purposes.
- Modification of subsidies in the agricultural sector and reduction in other public investment expenditures.

Social spending

The government plans to make an upfront fiscal adjustment by redirecting expenditure away from inefficient public investment and poorly targeted subsidies towards greater investment in health and education and the delivery of more social benefits.

The government has achieved the following and continues to drive the agenda for an improved economy: Free education, recruitment of teachers and health workers, increased the number of beneficiaries and the transfer value under the Social Cash Transfer Programme, and cleared pension arrears.

Economic outlook

Looking ahead

In a drive to maintain a positive economic trajectory, the government has announced in the 2023 Budget that it will continue to:

- implement fiscal consolidation measures to reduce the budget deficit,
- enhance domestic resource mobilisation,
- restructure the debt and dismantle domestic arrears, and
- increase allocations to enhance social sector welfare.

Key macroeconomic targets include:

- Attaining an average annual GDP growth rate of at least 4% by 2023.
- Reducing and sustaining inflation to single digits; 6% to 8%.
- Maintaining reserves at above 3 months of import cover.
- Achieving a fiscal deficit of not more than 7.7% of GDP.
- Limiting domestic borrowing to not more than 3.0% of GDP.

Our view

While we recognise and commend the progress made in improving economic conditions by the government, we highlight the structural issues within the economy, particularly vulnerability to:

- Volatility in copper prices (as a result of high dependence on copper exports for foreign exchange earnings); and
- Rainfall patterns - which impact food production and electricity generation.

In addition, it is important to bear in mind that attainment of these objectives remains highly dependent on successful negotiations with creditors on the debt restructure arrangements.

Overall, the efforts to diversify the economy by stimulating growth in agriculture, tourism and manufacturing are not only commendable but highly critical to sustained economic growth.

3

Taxes

Direct Taxes: Pay As You Earn

Changes in the tax exempt band and adjustment of tax bands

In the continuation of the policy to target revenue mobilisation away from individuals and to increase the disposable income of individual taxpayers thereby cushioning them from the rising cost of living, the Hon. Minister proposes to increase the annual income tax exemption threshold for Pay-As-You-Earn (PAYE) from K54,000 to K57,600 and to adjust subsequent tax bands and respective tax rate as indicated below. This proposal will result in a maximum annual incremental take home pay for individuals by K5,100 (K425 per month).

With this measure, the Hon. Minister expects to put a total of K1 billion in disposable income into the hands of individuals.

Increased disposable income for individual taxpayers

Annual Income	2022 Tax Rate	Annual Income	2023 Tax Rate
First K54,000	0.00%	First K57,600	0.00%
From K54,001 to K57,600	25.0%	From K57,601 to K81,600	20.0%
From K57,601 to K82,800	30.0%	From K81,601 to K106,800	30.0%
From K82,801	37.5%	From K106,801	37.5%

Differently abled persons – Increase in the monthly tax credit for differently abled persons from K500 to K600

Direct Taxes: Withholding Tax

The Hon. Minister has proposed various changes with respect to withholding tax rates.

The expected impact of the proposed changes are as follows:

- Encourage investments in the Insurance Services Sector.
- Stimulate the growth of Small and Medium-sized Enterprises ("SMEs") through savings.
- Encourage investments in climate change projects.
- Enhance compliance in the gaming and betting industry and lower the tax burden placed on gamblers.

On the subsequent pages, we discuss the particulars of these changes.

Direct Taxes – Withholding Tax

Removal of withholding tax on reinsurance, including retrocession from providers not licensed in Zambia

The Hon. Minister proposes to remove the 20% withholding tax on re-insurance including retrocession placed with reinsurers not licenced in Zambia.

The proposed measure aims to assist insurance companies to effectively manage their risks thereby potentially reducing the insurance premiums charged on the insured.

This measure also aims to encourage the growth and competitiveness of the reinsurance industry in Zambia and cost effectiveness of reinsurance of business risks.

Reduction of the withholding tax rate on interest earned by individuals on loans by members of savings group

The Hon. Minister proposes reducing the withholding tax rate from 15% to 0% on interest received by individuals on loans provided by members to savings groups such as village banks and co-operatives.

The proposal intends to encourage individuals to save through these savings groups as well as support SME growth by providing access to lower-cost financing.

Reduction of the withholding tax rate on investment income on life insurance funds

The Hon. Minister proposes to reduce the withholding tax rate from 15% to 0% on investment income earned from life insurance funds.

According to the Hon. Minister, this proposal also aims to encourage individual savings. Further, the proposal aims to increase the return on investments from life insurance and promote life insurance services.

Exempt interest income earned on green bonds listed on securities exchanges in Zambia

The Hon. Minister proposes to remove withholding tax on interest earned on green bonds listed on securities exchanges in Zambia with maturity of at least 3 years.

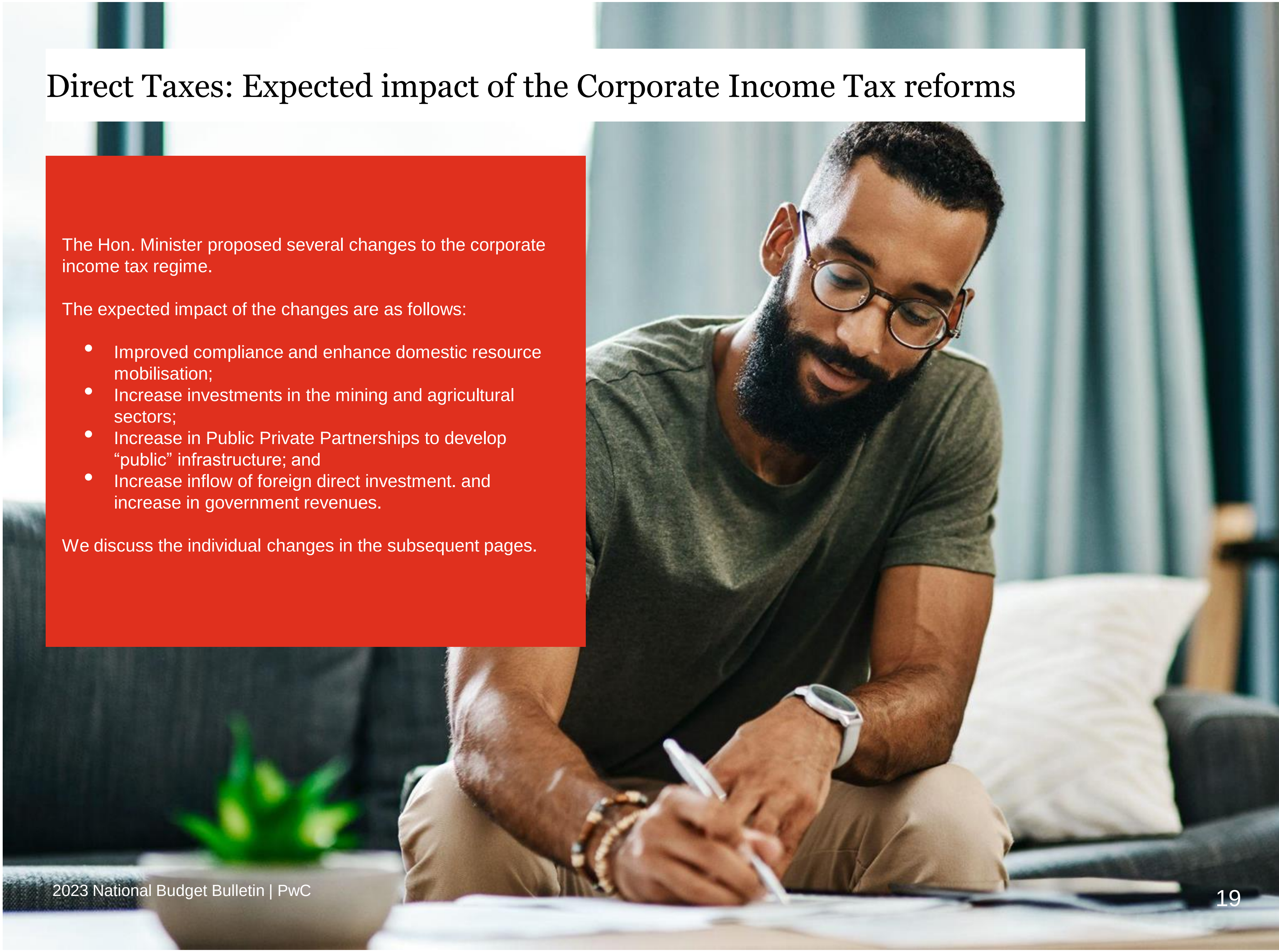
Currently, the interest earned on corporate bonds is taxed at 15%. The exemption will encourage investment in new and existing projects that promote investments in projects that encourage sustainability, climate change mitigation and green growth.

Reduction of withholding tax on winnings from gaming and betting

The Hon. Minister proposes to reduce the withholding tax rate to 15% from 25% on winnings from gaming and betting for the 2023 and 2024 charge years.

This measure aims to enhance compliance in the gaming industry.

Direct Taxes: Expected impact of the Corporate Income Tax reforms



The Hon. Minister proposed several changes to the corporate income tax regime.

The expected impact of the changes are as follows:

- Improved compliance and enhance domestic resource mobilisation;
- Increase investments in the mining and agricultural sectors;
- Increase in Public Private Partnerships to develop “public” infrastructure; and
- Increase inflow of foreign direct investment. and increase in government revenues.

We discuss the individual changes in the subsequent pages.

Reduced rates

Corporate income tax rate for Telecommunication companies

The Hon. Minister proposes to abolish the current two-tier taxation system in the telecommunication subsector, which provides for tax at 30% on taxable income of up to K250,000 and 40% on taxable income exceeding K250,000, and replace it with a single tax rate of 35%.

This is likely to reduce the overall tax burden on telecommunication companies which is consequently expected to also benefit the consumers through reduction in cost of ICT related services.

Tax on income received by Public Private Partnership

The Hon. Minister proposes to reduce the tax on income received by special purpose vehicles under a Public Private Partnership (PPP) modes of financing capital projects for the first five years that a project makes profit, by 20%.

A PPP is an arrangement between a public sector institution and a private party, where the private party performs a function that is usually provided by the public-sector and/or uses state property in terms of the PPP agreement.

The Hon. Minister further proposes to introduce an accelerated rate of wear and tear allowances on a straight-line basis, not exceeding 100%, in respect of any implement, plant and machinery acquired and used under a Public Private Partnership projects.

The above measures are intended to encourage private sector participation in Public Private Partnerships which will contribute to narrowing the infrastructure deficit.

Reduced rates

Changes to the agricultural sector

The Hon. Minister noted that agriculture is one of the strategic sectors that will drive economic growth.

The Hon. Minister has proposed to increase the threshold for the allowable expenditure incurred in the construction of employee housing under the Farm Improvement Allowance from K20,000 to K100,000. This allowance is given at 100%. The purpose of this increase in the threshold is to encourage the provision of accommodation for employees of the farming entity.

Further, the Hon. Minister has proposed to extend the local content allowance at the rate of 2% to include locally purchased tomatoes for processing. The local content allowance is a deduction claimed in the income tax computation of the company in respect of the use of selected raw materials.

The local content allowance currently applies to mangoes, pineapples and cassava. This proposed measure is to encourage value addition to tomatoes.

Increase allowable expenditure on Industrial Buildings Allowance ("IBA")

Additionally, the Hon. Minister proposes to amend the definition of an IBA and to increase maximum value of low cost housing for employees to qualify as an IBA from K20,000 to K100,000. The rate of wear and tear allowances is 10% on cost.

Rental Tax Regime

The Hon Minister proposes to introduce further reforms to the rental income tax regime by introducing a threshold on turnover tax and rental income tax of K12,000 per annum to be taxed at zero percent and the balance at the applicable turnover tax rate. This measure exempts income of K1,000 or less per month from turnover tax.

The Zambia Development Agency Incentives

Introduction of income tax concessions on income generated from local sales of corn starch by agro-processing business operating in a Multi Facility Economic Zone

To attract investment into corn starch processing, the Hon. Minister proposes introducing tax concessions for 15 years on income generated from local sales of corn starch by agro-processing businesses operating in Multi-Facility Economic Zones and Industrial Parks or Rural Area. Information on the incentives provided in the ZRA's 2023 Budget Highlights is unclear. We expect clarity to be provided once the respective Bill etc is issued. However, if the incentive are to be structured in line with previous incentive regimes, we expect the incentives to be structured as follows:

Charge years	% of profits subject to tax	Additional incentives
2023 - 2033	0%	Exemption from WHT on dividends
2034 - 2036	50%	
2037 - 2038	75%	

The measure is not only intended to attract investment into corn starch processing but also to promote value addition to maize and support employment creation. It should be noted that this is in addition to the incentives that were introduced in the 2022 National Budget with respect to entities invested in manufacturing industry located in these zones for export purposes. The incentives announced in the 2022 National Budget would have benefited corn starch manufacturers in these zones on their profits derived from export. The 2022 incentives however did not apply to profits derived from domestic sales. Our understanding of the 2023 National Budget is that the incentives would apply to both domestic and export profits earned by corn starch manufacturers in the zones. This should be clarified once the amendment bill is issued. If our understanding is correct, this may contribute to a drop in the cost of corn starch on the local market. Corn starch is a key raw material input in a range of manufacturing processes.

Housekeeping measures

Extension of turnover tax regime to service providers in the gig economy

The Hon. Minister proposed to extend the Turnover Tax regime to service providers in the gig economy.

Currently, entrepreneurs conducting their business through digital platforms pay their tax under the income tax (Corporate Income Tax) regime. This category of taxpayers includes independent (freelance) contractors working as content developers, online marketers, and online traders, among others.

This measure seeks to simplify the tax regime and improve compliance amongst taxpayers in this sector.

Treatment of non-cash benefits to employees

By way of housekeeping measures, there is to be an increase in the disallowed amount to 37.5% from 30% for an employer who provides non-cash fringe benefit in the form of housing.

Further, the housekeeping measures propose to increase the benefit to be disallowed by 20% in the employer's tax computation for the provision of motor vehicles to employees on a personal-to-holder basis.

Expansion of the definition of the term "Royalties"

By way of housekeeping measures, the term Royalties is to be expanded to include rent of software for income tax purposes.

This measure intends to broaden the definition of royalties to incorporate technological advancements.

Housekeeping measures

Deadline for payment of provisional tax return for a company registered for income tax after 31 March

By way of housekeeping measure, clarity will be provided that a payment of tax is due and payable within 90 days of registration for income tax, if such registration is made after 31st March.

This measure is intended to provide for a due date for payment of tax towards a provisional return submitted for which income tax registration occurs after 31st March. The payment shall be due within 90 days of registration.

Direct Taxes: Property Transfer Tax ("PTT")

The Hon. Minister proposed several amendments to the PTT.

The expected impact of the changes are as follows:

- Increased mineral exploration and the development of new mines with the introduction of a reduced PTT applicable to the transfer of mining rights owned by exploration companies;
- Increased domestic revenue mobilisation with the increase in the PTT rate on transfers of shares, land and intellectual property - however there is a risk that the increase could lead to a reduction in property transfers;
- Increased certainty for multinational groups with entities in Zambia with the proposed clearing up of an ambiguity relating to the PTT applicable on the indirect transfer of shares in Zambia company.

On the subsequent pages, we discuss the particulars of these changes.

Direct Taxes: Property Transfer Tax ("PTT")

Increase PTT rate for shares, land and IP

While the Hon. Minister has proposed a reduction in the PTT rate on mining rights relating to exploration (for more detail please refer to the Mining Reform Section further below), he proposes to increase the rate from 5% to 7.5% for the other three types of property which are subject to PTT upon transfer, which are:

(1) land;
(2) shares; and
(3) intellectual property.

This measure is intended to enhance domestic revenue mobilisation. We await to see how the market will react to this increment.

Direct Taxes: Property Transfer Tax ("PTT")

Housekeeping measures

Clarification in respect of the realised value with respect to indirect transfer of shares

This has been a persistent pain point for multinational groups with entities operating in Zambia. PTT applies on indirect share transfers of a Zambian company where a foreign entity owns at least 10% (either directly or indirectly) of the Zambian incorporated company.

Currently, there is an ambiguity which appears to imply that the PTT applies to the total value of the foreign company's shares being transferred, rather than the intended taxation of the value that the Zambian company's shares contribute to the total value of the foreign entity's shares.

This measure seeks to remove this ambiguity by clarifying that the value which is subject to tax is limited to the proportion of the value of the Zambian company bears to the foreign company being transferred. This measure will provide more certainty for groups with investments in Zambia.

In addition, it is proposed to remove, from the valuation formula, the reference to "effective shareholding" that was included in the 2020 National Budget in an effort to resolve issues with the valuation of foreign company shares.

PTT Exemption: surrender or forfeiture of shares

In the ZRA's 2022 Practice Note, the ZRA explained that subject to certain conditions being met, surrender or forfeitures of shares will not be subject to PTT.

This measure intends to formalise the practice guidance already issued by the ZRA, namely that the surrender or forfeiture of shares is not a transfer and is consequently not subject to PTT.

Housekeeping measures

Removal of reference to the Commissioner of Lands

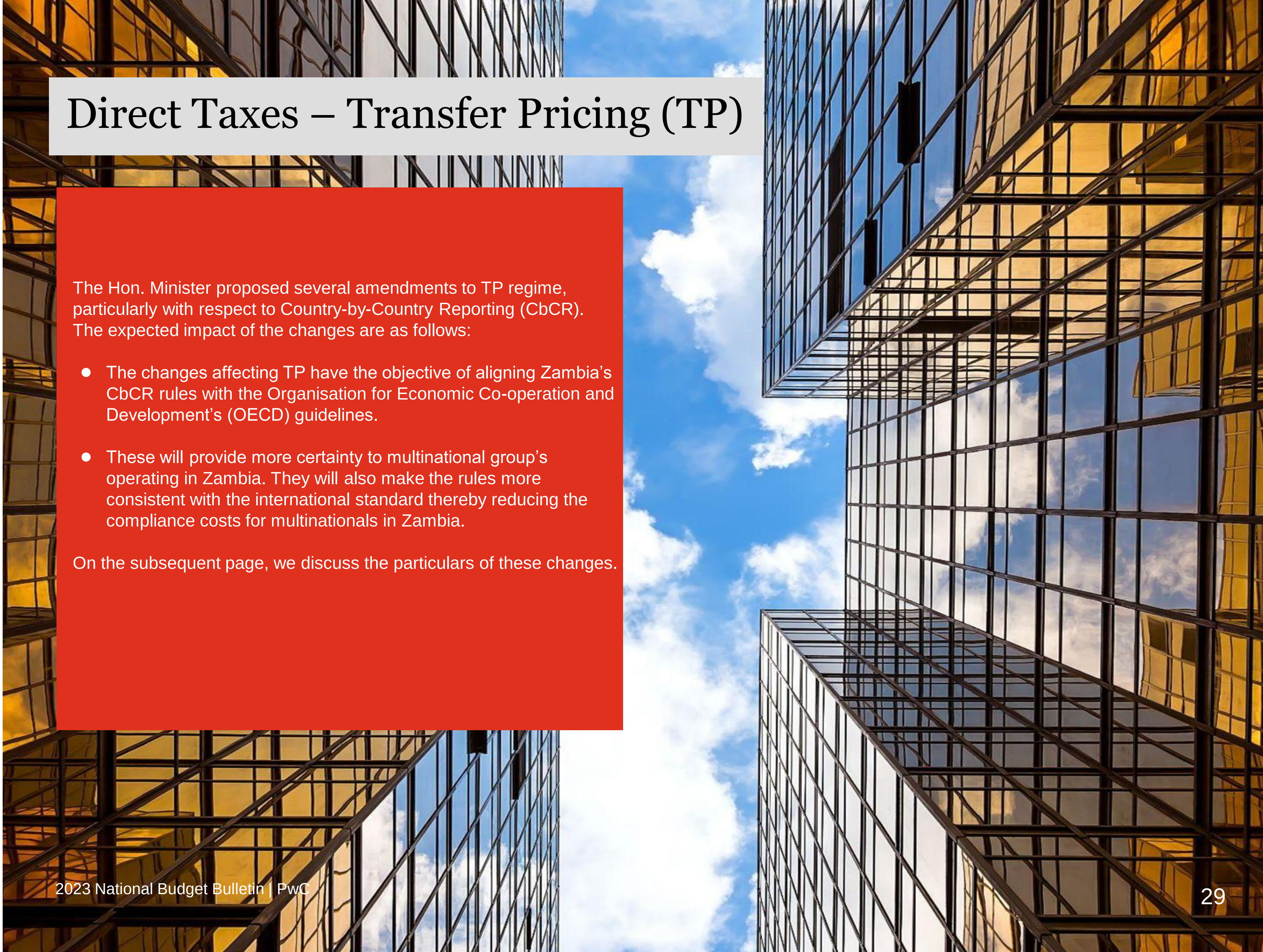
This measure proposes to remove mention of the Commissioner of Lands in the PTT Act in relation to the submission of returns relating to the transfer of land. The reason for this measure is the return for PTT in relation to the transfer of land is currently submitted to the Commissioner-General.

The measure will prescribe how the provisional return will be submitted and the law will be aligned with the current practice.

Realised value on disposal of distressed property by a financial services provider

This measure seeks to improve the turnaround time of distressed assets and improve liquidity for financial service providers.

This amendment provides that PTT can be applied on the actual value of the transaction rather than the open market value of distressed assets (such as shares or land and buildings). This can be the case if the distressed asset being transferred is land and buildings taken as loan collateral. Typically, these assets are sold for less than their market value. Prior to this change, banks were required to account for PTT on the sale of the distressed assets at a possibly higher market value. The proposed amendment enhances the realised value definition to incorporate the actual price paid for the transfer of distressed assets.



Direct Taxes – Transfer Pricing (TP)

The Hon. Minister proposed several amendments to TP regime, particularly with respect to Country-by-Country Reporting (CbCR). The expected impact of the changes are as follows:

- The changes affecting TP have the objective of aligning Zambia's CbCR rules with the Organisation for Economic Co-operation and Development's (OECD) guidelines.
- These will provide more certainty to multinational group's operating in Zambia. They will also make the rules more consistent with the international standard thereby reducing the compliance costs for multinationals in Zambia.

On the subsequent page, we discuss the particulars of these changes.

Updates to Transfer Pricing Regulations (TP Regulations)

The Hon. Minister intends to make a series of changes to the provisions of the TP Regulations which relate to Country-by-Country Reporting ("the CbCR Provisions") which came into effect from the charge year 2021.

Amending the Definition of "Multinational Enterprise Group" and "Ultimate Parent Entity"

The Hon. Minister proposes to amend the above definitions to align with the OECD definition.

Removing the dual currency use in the CbCR Provisions

The Hon. Minister intends to align the CbCR Provisions to the OECD recommendation of the use of a single currency test. In the last charge year, the CbCR Regulations were amended to remove the Euro from one of the CbCR rules. Nonetheless, the Euro was used in other areas of the TP Regulations, creating ambiguity.

We expect this measure proposed by the Hon. Minister will remove the remaining mention of Euro to leave a single currency test i.e., using the Kwacha to determine the consolidated group revenue below which the CbCR provisions do not apply to a company which is part of a multinational group ("the CbCR Threshold"). It is, however, also possible that the sole currency applicable may be the Euro currency as this is the one used in the OECD guidelines for Country by Country Reporting. The Hon. Minister has not yet stated categorically which currency will be used to determine the CbCR Threshold.

Correction of the wording for conditional filing of Country by Country Reports

The Hon. Minister intends to correct the wording of the provision regarding the conditional filing of Country-by-Country Reports. This is to align the CbCR Provisions to the intention of the OECD guidelines on Country-by-Country Reporting requirements.

Proposed Changes in the Mining Sector

Proposed changes in the mining sector

It is the stated policy of the Government to make the mining sector competitive, conducive and attractive for investment by, amongst other things, maintaining a stable tax policy and predictable regulatory environment. It is to this end that the Hon. Minister made the following proposals.

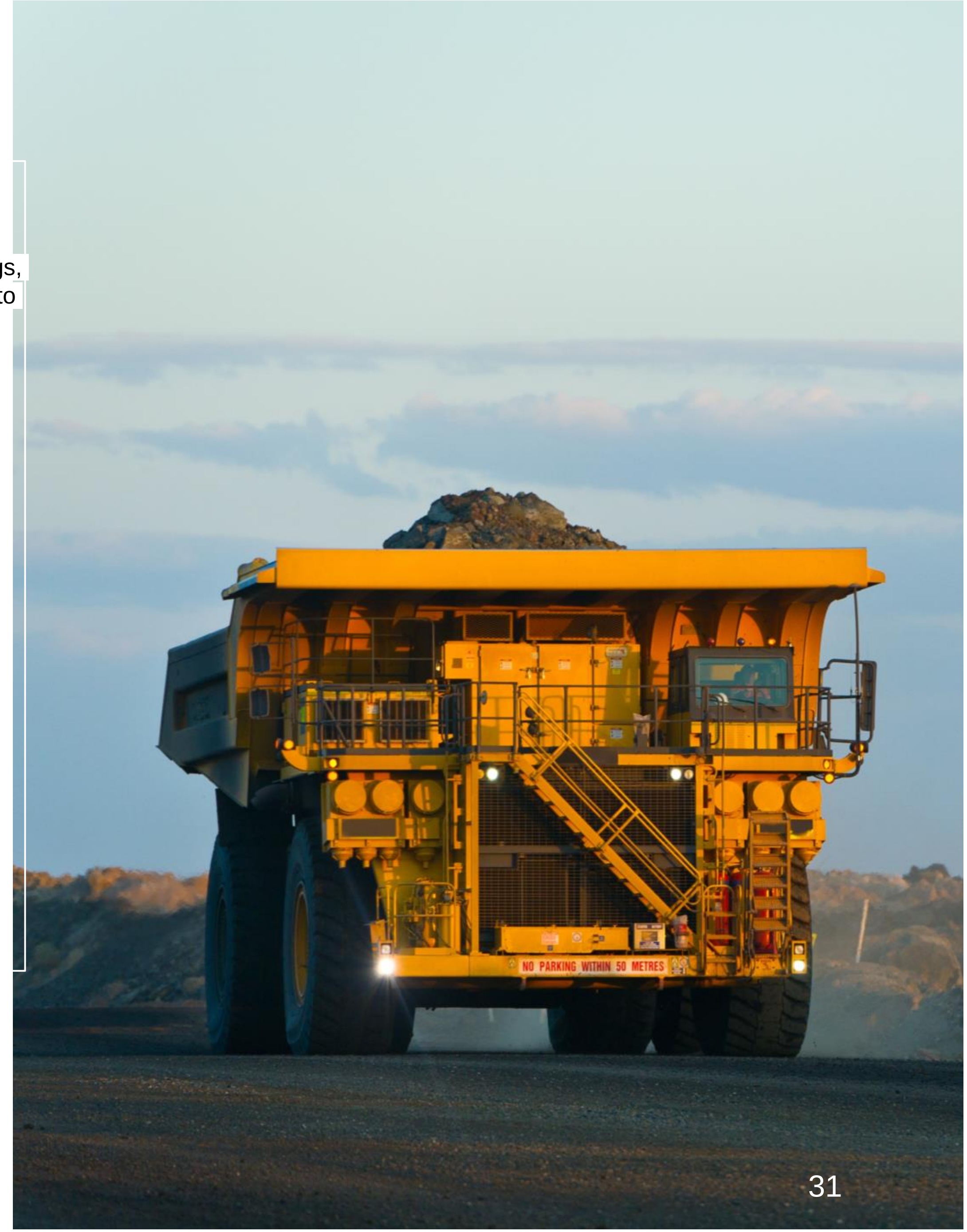
Mineral royalty reform

The Hon. Minister proposes the following changes to the current Mineral Royalty Tax (MRT) regime:

- The MRT to apply on the incremental value in each price band as opposed to taxing the aggregate value at a fixed MRT rate when the price crosses a respective threshold.
- The price bands to be adjusted accordingly with the reduction of the lowest marginal rate from 5.5% to 4% and the removal of the rate of 7.5%.

The following is a summary of the current and proposed MRT regimes

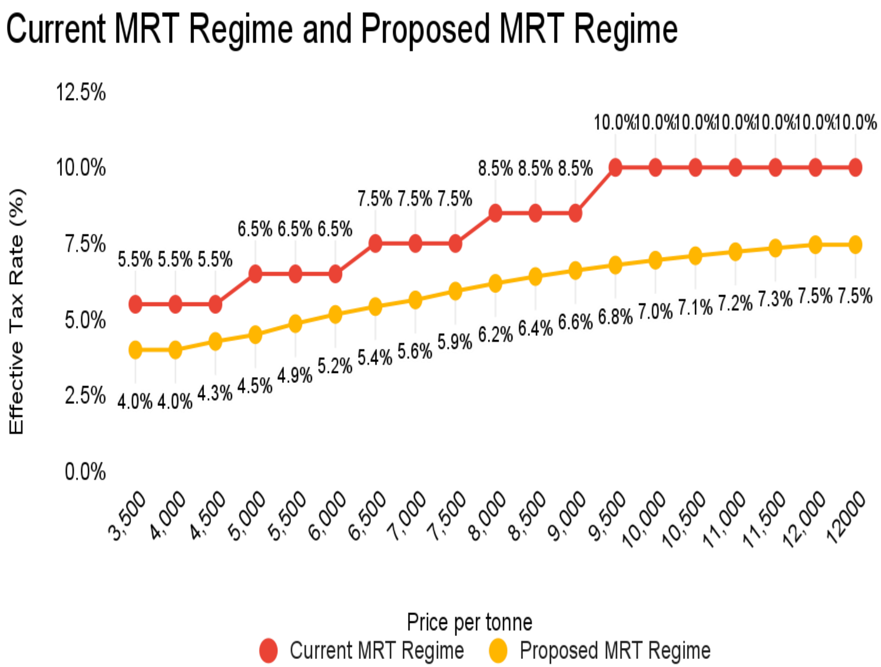
Current regime		Proposed regime	
Price range per tonne US$	**Rate (%) on the full amount**	**Price range per tonne US$**	**Rate (%) on the incremental price**
< 4,500	5.5	< 4,000	4
4,501 - 6,000	6.5	4,001 - 5,000	6.5
6,001 - 7,500	7.5	5,001 - 7,000	8.5
7,501 - 9,000	8.5	> 7,001	10
> 9001	10%		



Proposed changes in the mining sector

Mineral royalty reform (continued)

To contextualise the impact of the proposed change compared to the current MRT regime, we provide below a simple simulation of the effective tax rate as a factor of the price per tonne in both scenarios:



The proposed change to the MRT rate will result in a gradual incremental MRT rate as the price per tonne of copper changes. The intention of the proposed change is to align the mineral royalty regime with international best practice by reducing the effective tax rate to encourage investment in the mining sector while also ensuring that the nation continues to benefit when prices increase on the commodities market.

Mining Rights – reduced PTT

As part of the tax reform policy package designed to attract and secure investment in mining sector, the Hon. Minister proposes to reduce the PTT rate on the transfer of mining rights held by exploration companies from 10% to 7.5%. It is not yet clear if this rate reduction applies to all mining rights or only those related to exploration. The proposed amendment bill will provide further clarity.

The stated purpose of this proposed amendment is to encourage mineral exploration and support development of new mines in order to increase mineral production.

Proposed changes in the mining sector

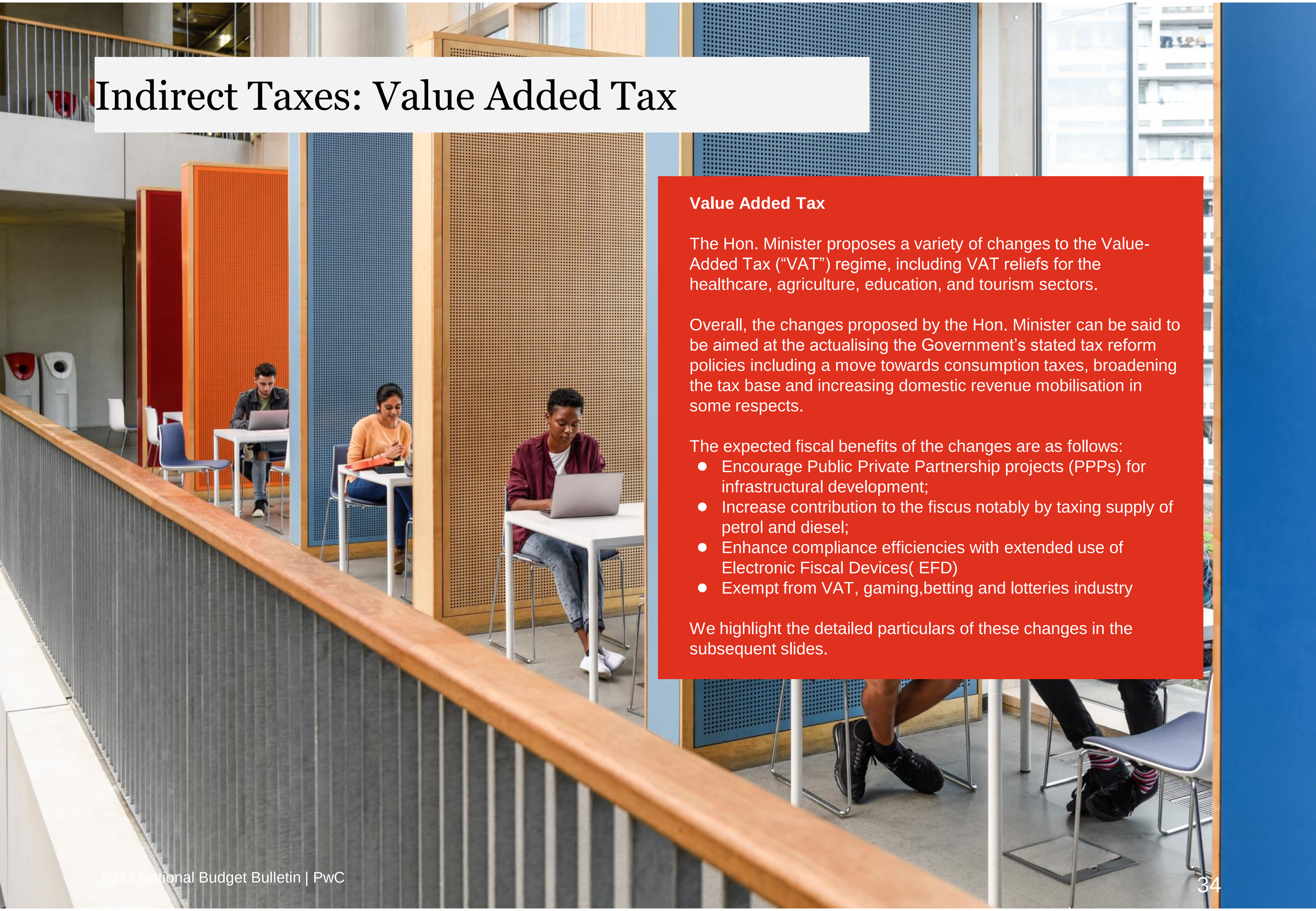
Artisanal and small scale mining to be taxed under Turnover tax regime

In order to promote artisanal and small scale mining, the Hon. Minister proposes to simplify the tax system applicable on this sector by moving them from Corporate Income Tax to Presumptive Tax.

The intended change is to replace the current corporate income tax regime with a presumptive tax which will be applied at the applicable turnover tax rates on the gross turnover less mineral royalty paid. We expect more detailed guidance to be provided.

Reduction of the CIT rate from 30% to 25% on income earned from value addition to gemstones through lapidary and jewellery facilities.

This measure aims to stimulate growth of the gemstones sub-sector by supporting domestic value addition to gemstones. The proposed change is aligned to the Government's diversification agenda as noted in the the 8th National Development Plan.



Indirect Taxes: Value Added Tax

Value Added Tax

The Hon. Minister proposes a variety of changes to the Value-Added Tax (“VAT”) regime, including VAT reliefs for the healthcare, agriculture, education, and tourism sectors.

Overall, the changes proposed by the Hon. Minister can be said to be aimed at the actualising the Government’s stated tax reform policies including a move towards consumption taxes, broadening the tax base and increasing domestic revenue mobilisation in some respects.

The expected fiscal benefits of the changes are as follows:

- Encourage Public Private Partnership projects (PPPs) for infrastructural development;
- Increase contribution to the fiscus notably by taxing supply of petrol and diesel;
- Enhance compliance efficiencies with extended use of Electronic Fiscal Devices(EFD)
- Exempt from VAT, gaming,betting and lotteries industry

We highlight the detailed particulars of these changes in the subsequent slides.

Indirect Taxes: Value Added Tax

VAT incentives to special purpose vehicle for Public Private Partnership projects

The Hon. Minister proposes to extend the provisions under the VAT (General) Regulations to include special purpose vehicles for PPPs as an intending trader. This will allow taxable suppliers that are PPP SPVs' to claim input VAT in its set up phase for up to four years before commencement of commercial operations.

This proposed change will optimise the cash flow and costs of developing PPP projects, underscoring the government's commitment to leveraging the PPP financing model and encouraging collaborations to finance infrastructure development.

From Zero Rated to standard rated (16%)

It is proposed that the following zero-rated supplies be subject to standard VAT rates:

Description	Old Rate	New Rate
Supply of petrol and diesel effective midnight of 30 September 2022	0%	16%
Energy saving appliances and equipment including: electric generating sets (diesel or semi diesel generators), and generators with spark ignition internal combustion piston engines; and ranges, grates, cookers (including those with subsidiary boilers for central heating), barbecues, braziers, gas rings, plate warmers and similar non electric domestic appliances, and parts thereof, of iron or steel for cooking and plate warmers that use gas fuel or for both gas and other fuels.	0%	16%
Goods imported by the Republican President that are standard rated in normal circumstances	0%	16%

The Hon. Minister has reintroduced VAT on petrol and diesel effective at midnight on 30 September 2022. This is in an effort to restore fiscal sustainability, broaden the tax base and maximise domestic revenue mobilisation.

Indirect Taxes:Value Added Tax

Addition to the Zero-rating schedule

The Hon.Minister proposed to include the following supplies to the zero rating schedule of the VAT Act:

Description	Old Rate	New Rate
Supply of milk cans and milking machines.	16%	0%
Supply of selected Information and Communications Technology (ICT) and telecommunications equipment.	16%	0%

The zero-rating of the supply of milk cans and milking machines is aimed at encouraging the growth of the dairy sub-sector and promoting utilisation of appropriate milk handling equipment thereby enhancing economic activity.

Also, the telecommunication sector will enjoy relief with the proposal to zero rate selected ICT and telecommunications equipment in a bid to improve cash flow within the sector. With increased investment and subsequent competitiveness in this sector, this measure may possibly see a reduction in the cost of telecommunication services to the consumer.

New VAT exemptions

The following supplies have been proposed to be exempt from VAT:

Description	Old Rate	New Rate
Gaming, betting and lotteries.	16%	Exempt
Game animals imported as breeding stock	16%	Exempt

The Hon.Minister has further proposed to amend the Value Added Tax Exemption Schedule to include gaming, betting and lotteries. This is in a bid to align with international best practices as well as to relieve taxpayers of the administrative inefficiencies associated with accounting for VAT in this industry.

The Hon. Minister has proposed to amend the VAT Exemption Schedule by the inclusion of game animals imported as breeding stock. This means that there will be no Value Added Tax paid on any game animals imported for this purpose. This is a welcome move given the focus towards the tourism sector to drive economic growth and diversify the economy.

Indirect Taxes: Value Added Tax

VAT- Housekeeping measures

Restriction of VAT concession on imported raw materials used to make mosquito nets

The change restricts the concession on imported raw materials in the production of mosquito nets to only mosquito net manufacturers.

This provides clarity on who is eligible to enjoy the concession on mosquito net raw materials. This measure will ensure that other economic players do not take advantage of the zero-rating of these particular materials in line with the goal to enhance compliance.

Amend the heading of Group 7 (h) of the VAT Zero-Rating schedule to include the term "Solar Batteries"

The change clarifies that only solar batteries are zero rated.

Amendment to the definition of Commercial property

Currently, the VAT Act defines commercial property as a building that is used for commercial purposes and a multifacility building. The change amends the definition of commercial property to include:

- The sale of an interest in bare land being bought primarily for commercial use.
- The sale of an interest in (largely) bare land on which a small portion contains commercial property.

Generally, the sale or lease of an interest in land is exempt from VAT.

VAT- Housekeeping measures

By way of housekeeping measures, the proposed administrative changes to enforce the use of Electronic Fiscal Devices (EFD) include:

- Amend the heading for Section 7A(1) to read "record of sales" in order to align with the content under Section 7A(1). The amendment to this section was introduced last year to clarify that taxable suppliers are required to record each sales transaction for any supply using electronic fiscal devices
- Rearrangement of the wording in the VAT (Electronic Fiscal Device) Regulations to reflect the correct order of approval of Accounting Software. This intends to reflect the order of approval and integration of EFDs.
- Introduction of automated inspection logbooks in the EFD regulations. In a bid to enhance transparency and efficient VAT compliance measures, this measure aims to provide for both electronic and manual logbooks to enhance authentication of transactions and expand electronic recording.
- Amendment of the VAT (Electronic Fiscal Device) Regulations to delete references for Zambia Information and Communications Technology Authority (ZICTA) and the definition of an electronic fiscal device under ZICTA.

Indirect Taxes: Value Added Tax

The measures above are a welcome move and demonstrates commitment by the government to rescope implementation of the Tax Invoice Management System through the EFDs as had been provided in the tax reform policies of the ruling party.

Penalties on evasion of taxes

The change proposes to amend Section 44 of the VAT Act to enforce an increase of penalty on evasion of taxes from 30,000 penalty units (K9,000) to 300,000 penalty units (K90,000). This aligns the penalties for fraudulent evasion of tax penalties and aiding and abetting fraudulent activities.

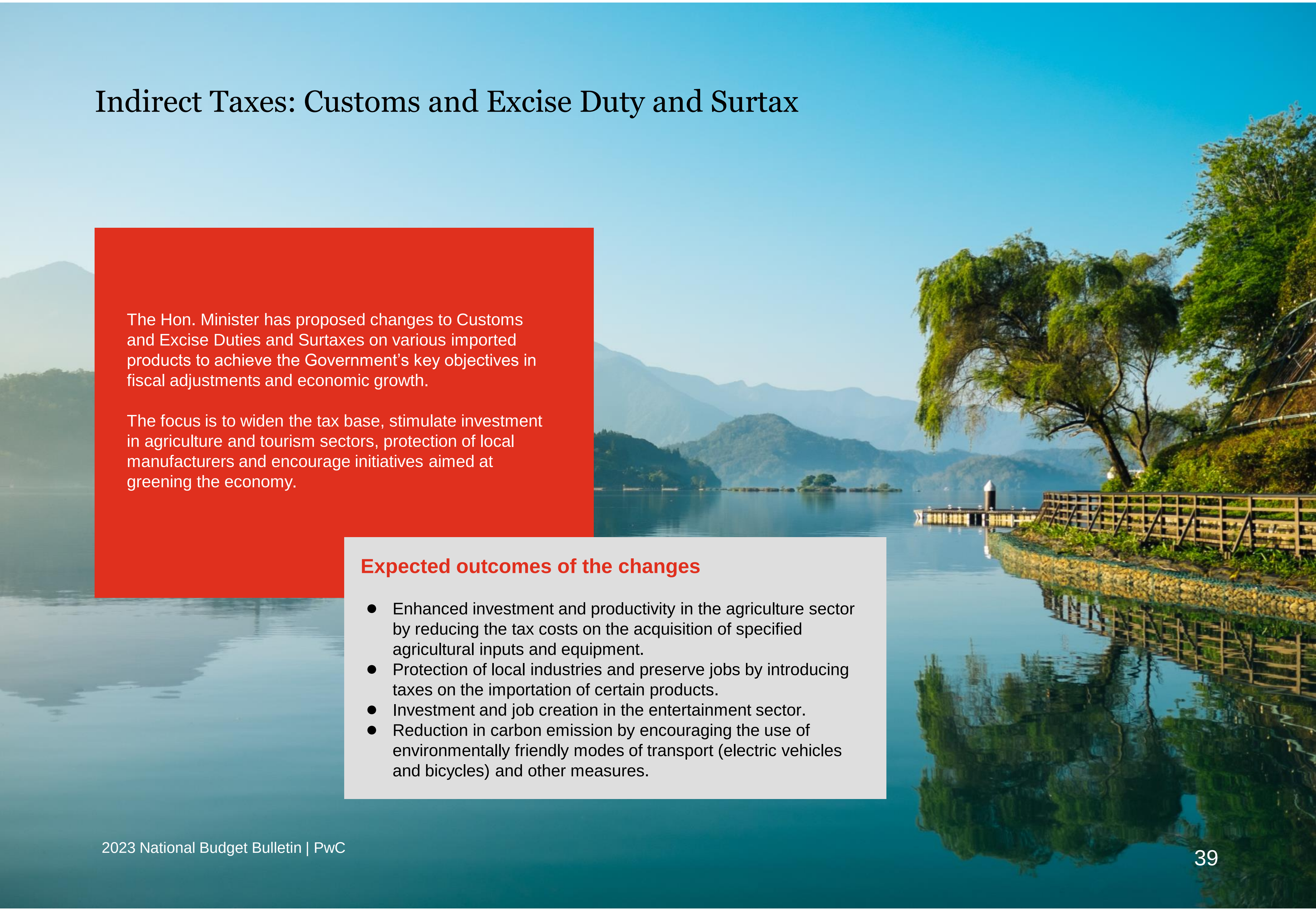
VAT- Housekeeping measures

VAT exemption on supply of quails and feed for all birds kept for domestic or commercial purposes

Prior to the proposed change, the exemption schedule described poultry to mean chickens, ducks, geese, and turkeys with the exclusion of ostriches. The change proposes to include quails and guinea fowls to the list of poultry that are exempt. This aligns the VAT exemption for all birds kept for domestic or commercial purposes, excluding ostriches.

Clarification on the three months within which a taxpayer can reclaim input VAT

The proposed change intends to clarify that the three months period within which a taxpayer can reclaim input VAT is determined from the date of the tax invoice or the prescribed documentary evidence and not the date of submission of the return in which that input tax is being deducted.



Indirect Taxes: Customs and Excise Duty and Surtax

The Hon. Minister has proposed changes to Customs and Excise Duties and Surtaxes on various imported products to achieve the Government's key objectives in fiscal adjustments and economic growth.

The focus is to widen the tax base, stimulate investment in agriculture and tourism sectors, protection of local manufacturers and encourage initiatives aimed at greening the economy.

Expected outcomes of the changes

- Enhanced investment and productivity in the agriculture sector by reducing the tax costs on the acquisition of specified agricultural inputs and equipment.
- Protection of local industries and preserve jobs by introducing taxes on the importation of certain products.
- Investment and job creation in the entertainment sector.
- Reduction in carbon emission by encouraging the use of environmentally friendly modes of transport (electric vehicles and bicycles) and other measures.

Indirect Taxes: Customs and Excise Duty and Surtax

Agricultural and fishery sector

The Hon. Minister proposes to remove customs duties on:

- biological control agents;
- crop growing media; and
- selected tree crop seedlings.

In addition, the Hon. Minister proposes to suspend Customs duties on greenhouse plastics used in agriculture and specified machinery, equipment and articles used in aquaculture for a period of three years from 2023 to 2025.

These changes are aimed at encouraging investment in the agricultural sector.

Manufacturing

The Hon. Minister proposes fiscal measures to protect local manufacturers, promote out-grower schemes and value addition within Zambia, as follows;

- Introduction of surtax at the rate of 5% on imported Polyvinyl Chloride (PvC) and HDPE pipes.
- Reduction of excise duty from 10% to 5% on locally produced clear beer made from cassava.
- A decrease from 40% to 20% in excise duty on locally produced clear beer made from malt.
- Increase surtax from 5% to 20% on the imported floor and wall tiles.
- Removal of customs duty on plant, machinery and equipment acquired for Public Private Partnership projects.

These measures are expected to increase local industries' competitiveness in the market against similar imported products. Nevertheless, the protectionism measures may be counter-intuitive to free international trade and therefore potential impacts should be assessed.

Further, in order to harmonise the excise duty rates on methylated spirit and ethyl alcohol, the Hon. Minister proposes a reduction in excise duty on methylated spirits to 60% from 125%.

Indirect Taxes: Customs and Excise Duty and Surtax

Re-introduction of customs and excise duty petrol and diesel

In 2021 the Government suspended excise duty on petrol and diesel to cushion Zambians from the rise in fuel prices in the Global market. In June 2022 the subsidy was extended to 30 September 2022.

In his speech, the Hon. Minister stated that this would be reversed with excise duty being reinstated with effect from 1 October 2022. As a result, excise duty will apply at rates summarised in the table below as specified in the Customs and Excise Tariff document.

	Petrol	Diesel
Excise duty	K2.07/ltr	K0.66/ltr

The Hon. Minister indicated that the aim is to remove inefficient reliefs that benefit the rich and instead, allocate the revenue collected to important areas such as free education and medical equipment.

It remains to be seen if the downward trend of global fuel prices will continue given the ongoing Russian-Ukraine conflict which has impacted the supply of these commodities in the world market.

Further, the Statutory Instrument No. 62 issued on 30 September 2022, suspends customs duty, to 31 December 2022, on petrol and diesel imported or purchased from a bonded warehouse by an oil marketing company authorised and specified in the gazette by the Ministry responsible for energy.

"Sin Taxes"

The Hon. Minister proposes to increase excise duty on tobacco and tobacco-related products as follows:

- Increase specific excise duty on cigarettes, unmanufactured tobacco, tobacco refuse, smoking tobacco, and water pipe tobacco from K355 to K361 per kg.
- Introduce excise duty on electronic cigarettes and cartridges at the rate of 145%.

This measure aims to increase government revenue and, perhaps, discourage and limit the use of these products in Zambia in line with World Health Organisation's recommendations.

Music and Film industry

The Hon. Minister proposes relief on customs duty for a period of 3 years on selected equipment for the music and film industry.

This change is targeted at encouraging investment and create job opportunities in the creative sector.

Indirect Taxes: Customs and Excise Duty and Surtax

Tourism

With the intention of speeding up the recovery of the Tourism sector from the impact of COVID 19 and enhance growth, the Hon Minister proposes to suspend customs duty for three years (from 2023 to 2025) on imports of:

- selected fixtures and fittings;
- capital equipment;
- machinery; and
- safari game viewing vehicles.

The proposed relief is only applicable to goods that are not manufactured in Zambia.

The existing customs duty relief on safari game viewing vehicles was due to expire on 31 December 2022.

The proposed reliefs should provide the tourism industry a chance to recapitalise after the adverse impact of Covid. In addition, other administrative measures such as waiver of visa fees for tourists from major markets such as the United States and the United Kingdom should, hopefully, boost the number of visitors in the coming years.

Financial Services

The Hon. Minister proposes to suspend a 15% customs duty on imported Automated Teller Machines (ATMs) for a period of one year with a view to help financial institutions to improve efficiency in the provision of their services. Hopefully this should result in the increase the number of ATMs across the country.

Telecommunication and Information Technology

To stimulate investment in the telecommunication sector and improve coverage, The Hon. Minister has proposed relief on customs duty for a period of 3 years on the selected information and communications technology and telecommunications equipment.

The move intended to encourage investment to be made in the sector allowing for competition and potentially reducing the cost of and widening access to ICT services to the citizens.

Sanitary Services

To encourage investment in waste management initiatives by municipalities and cities, The Hon. Minister proposes to suspend customs duty for a period of three years on refuse compactor trucks, skip loader vehicles, road sweepers skip bins and equipment for baling waste.

Prefabricated Housing

In order to help spur a cost effective alternative / solution to meet the cross sector demand for all purposes infrastructure/ housing, the Hon. Minister proposes to waive customs duty for a period of three years on prefabricated housing units.

Indirect Taxes: Customs and Excise Duty and Surtax

Environmental Initiatives

The Hon. Minister proposes certain changes to facilitate green economy initiatives.

- Removal of 15% customs duty on gas cylinders. The objective is to reduce the cost of using liquified petroleum gas and reduce reliance on less environmentally friendly sources of energy.
- Reduction of customs duty on the importation of electric vehicles from 30% to 15%. This is a welcome move as the world is moving towards cleaner means of transport to limit carbon emissions.
- Imposition of surtax at the rate of 5% on imported coal to encourage the use of alternative cleaner sources of energy.
- A 10% increase in carbon emission surtax that is charged on motor vehicles.
- Introduction of 15% customs duty on certain plastic articles to limit their use and facilitate environmental protection.

We expect the above measures to ultimately contribute to the reduction of carbon emissions and generate revenue for the Government.

Housekeeping measures

Finally, the following are proposed changes by way of housekeeping measure from the ZRA Budget Highlights document:

- The Government of Zambia to be capable of signing agreements with other Governments for the exchange of information on customs matters.
- Requirement to use Electronic Fiscal Device (EFD) in issuing invoices for local excise duty purposes.
- Implementation of the cargo tracking system.
- Increase in time limit between application for Advance Tariff Ruling (ATR) and importation of goods imported under that ATR.
- Payment of duty shown in the bill of entry to be paid within three days (previously five days) from the date of assessment.
- Removal of a licencing requirement for packaged water and pure fruit juices.
- Licencing Committee to review applications for clearing and forwarding licences.

4

Sector analysis

Mining

Look back

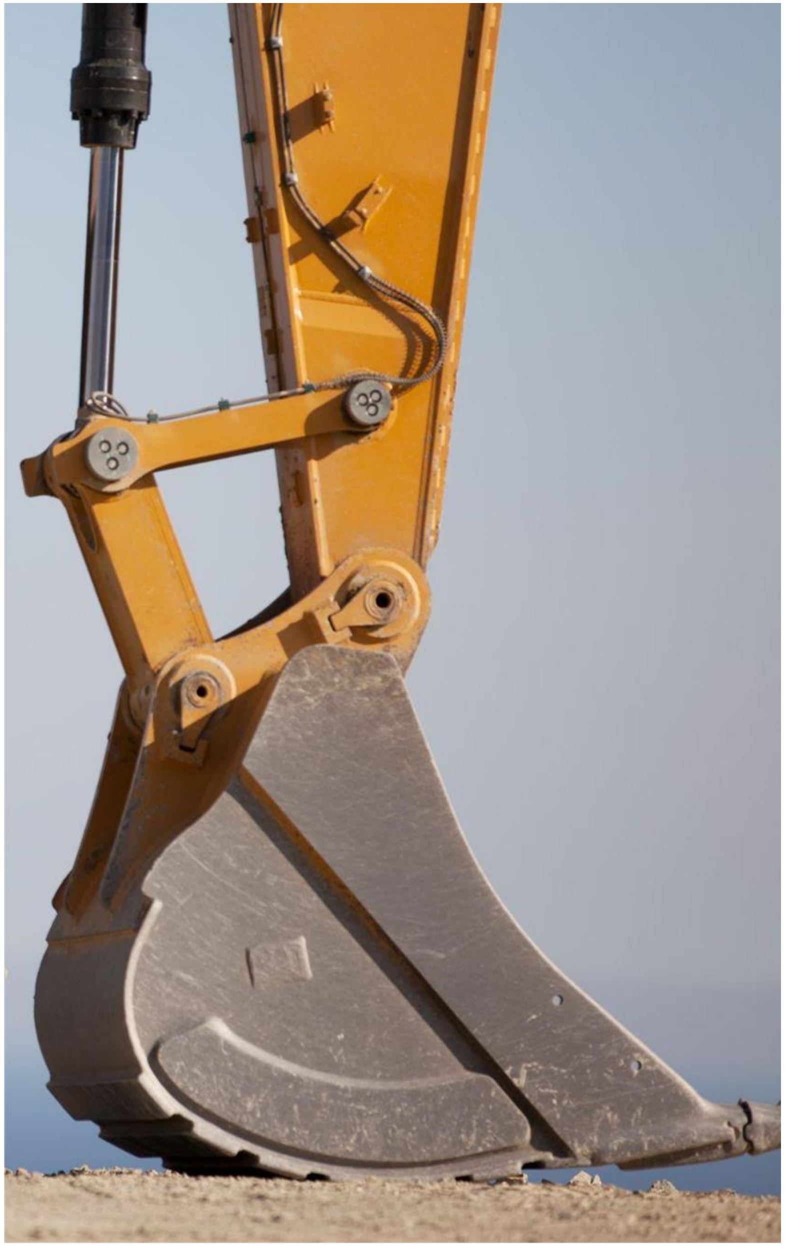
The mining sector has remained a large contributor to National GDP (at 17.3% of National GDP in 2021), tax revenues and export earnings. According to Zambia Revenue Authority (ZRA), the mining sector accounted for 47% of total national taxes in the year 2021. In addition, over the five-year period to the end of 2021, copper exports accounted for more than 74% of foreign exchange earnings.

As of the end of August 2022, the sector accounted for over K35.3 billion of revenues generated from income tax, representing 31.72% (Ministry of Finance and National Planning).

The country's annual copper production on average has been 767,000 tonnes over 10 years and was standing at 804,000 metric tonnes as at December 2021. Production has staggered over the years due to the unstable investment climate which has largely resulted from frequent tax changes; there have been 31 changes to the mining policy over the last 13 years. There have also been policy changes related to regulation; such as SI 33 of 2012 and SI 55 of 2013 which have since been repealed.

The Government committed to increase the current production to 3 million metric tonnes by 2032. This is aimed at maximising the mining sector's contribution to the economy.

Furthermore, the Government committed to promote mineral diversification by considering the production and processing of gemstones, gold, nickel, manganese, iron, industrial and other high value minerals.



Mining

The stimulus plans

Stemming from the unstable investment climate which has hampered growth in the sector, the Government has indicated that they will maintain stable and predictable regulatory and tax policies. This positive outlook has started to unlock investments as announced by First Quantum Minerals on the landmark investment of US$1.35 billion for the expansion of Kansanshi project and development of a new Enterprise Nickel Project, with production expected to commence in 2025. 2022 has also seen investments in new mines such as Kitumbe, Kashime and Mwekera Mines, which are expected to come into production in the medium term.

To further support the mining sector, the Government also intends to introduce a progressive sclae approach for the determination of mineral royalty, and to continue to encourage the formation of cooperatives among artisanal and small-scale miners as a way to facilitate access to support services to enhance their productivity and value addition.

Furthermore, the Government in its quest to promote artisanal and small-scale mining, will implement measures to formalise their operations and provide support with equipment and training to increase production. This is also expected to assist the artisanal and small-scale miner access affordable capital and partner with potential foreign investors through joint ventures.

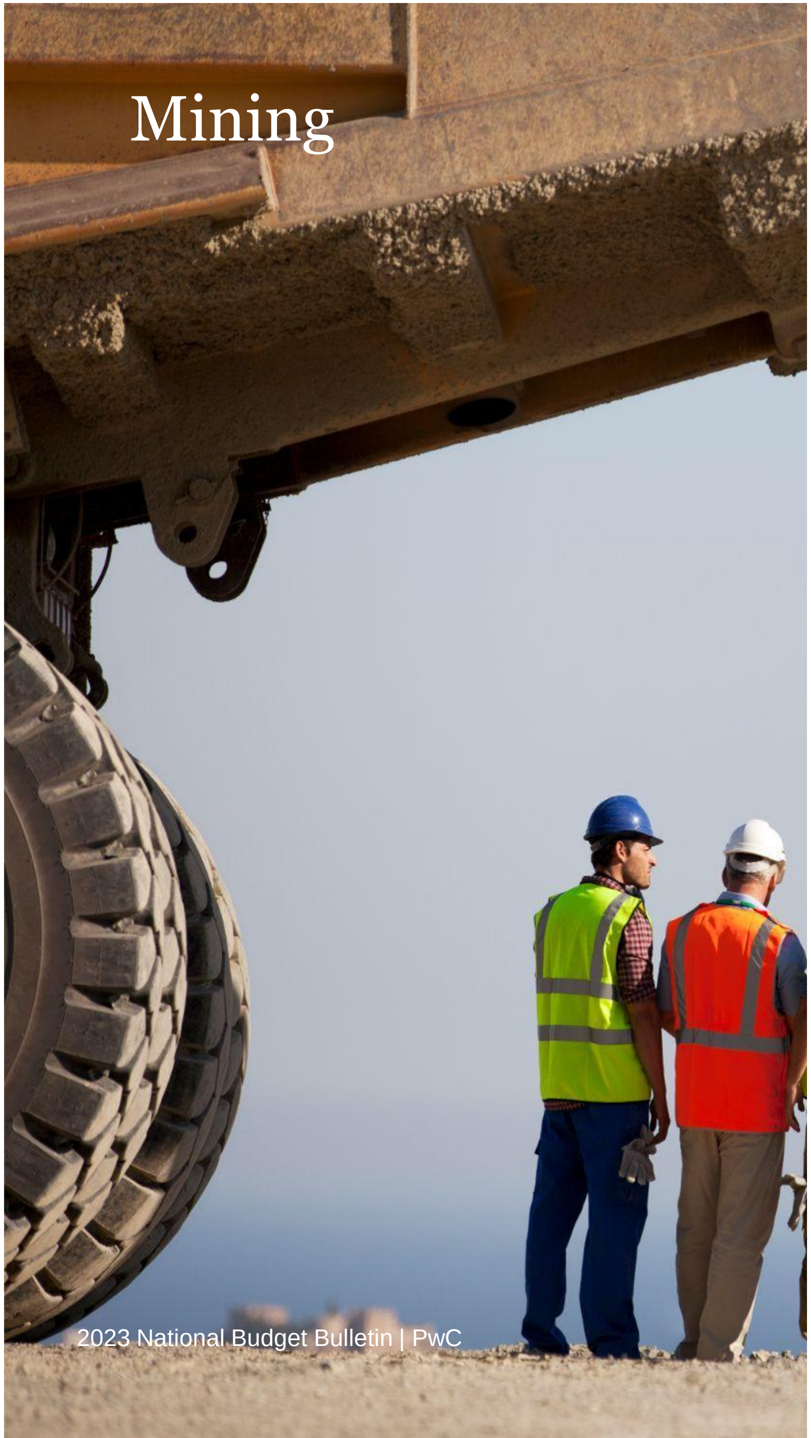
The Government has also provided tax incentives (refer to section 3 - Taxes).

The Government also plans to enhance its strategic involvement and participation in the sector through acquisition of golden shares in mining assets.

The Government is aiming at reaching 1.5 million metric tonnes production by 2026 with the ultimate goal of 3 million metric tonnes by 2032.

Finally, the Government will establish a mining regulatory institution to enhance oversight in the sector.

Mining



Our view

The Government is commended for the commitment made towards maintaining the policy and tax consistency for the sector; these should be in a form of a long term framework to enhance policy stability and predictability as this will result in increased investor confidence and stimulate direct foreign investment (FDI) flow into the sector.

The timely resolution of the challenges at Konkola and Mopani Copper Mines and getting them back to full capacity will be key towards accelerating the momentum towards the targeted 3 million metric tonnes of copper production, given the potential to enhance investor confidence as well as local key stakeholders, the miners. The Government should get equity partners on board to inject additional capital needed to boost production.

There is need for Government to intensify efforts to attain mineral geological mapping exercise to more than 80% National coverage (currently at not more than 55%), by putting in place targeted investor incentives for exploration activities and publicly sharing such results. Key to this include the making public, current exploration data which informed the target of the 3 million metric tonnes of copper production.

The global shift to renewable energy technologies and the expected move to electric vehicles offer Zambia's mining sector significant potential.

One of the key areas in the sector is rebuilding trust with the mining stakeholders. Refer to our 'Building trust, securing the future- A review of the Zambian mining sector' publication for more views on rebuilding trust in this sector.

Electricity

Look back

Government’s plans to implement cost reflective tariffs have reached an advanced stage following the successful completion of the electricity cost of service study (CoSS) in December 2021. The CoSS brought out key findings and recommendations including;

- increase in load forecast (peak electricity demand) by 95% from 2,143 MW in 2020 to 4,199 MW in 2040,
- Requirement of US$14 billion worth of investment to meet the projected demand.
- Increase in electricity tariffs by an average of 17% over the next five years, placing a heavier tariff burden on residential customers and subsequently reducing electricity tariffs for maximum demand and power purchase agreement (PPA) customers

(Source:Cost of Service Study Report).

The stimulus plans

In response to the Electricity Cost of Service Study recommendations, Government has stated that it will update the CoSS recommended load forecast to 10,000 MW by 2040 to take into account the New Dawn Government’s desire to attain universal access to electricity, stimulate agriculture production, achieve annual copper production of 3 million tonnes over the next decade and establish Zambia as a hub for electricity trade.

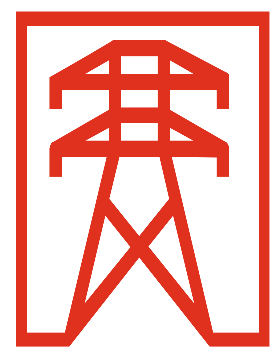
Regarding the CoSS recommendation on the revision of economic tariffs, Government does not support the CoSS study recommendation which places a heavier tariff burden on residential customers. It instead wants to ensure that there is a reasonable balance between social and economic considerations in the tariff-cost allocation methodology to support different sectors towards economic recovery.

(Source:Government green paper on the findings and recommendations of the 2021 electricity cost of service study)

Our view

Government's commitment to implement cost reflective tariffs will improve the financial position of ZESCO Limited via increased revenues, which will result in enhanced service delivery and facilitate greater investment in the sector.

However, Government resolve to restructure ZESCO remains even more critical to ensure the end users pay the most efficient tariffs possible. Its our considered view that the proposed tariff adjustments towards a cost reflective tariff should incorporate savings from the restructure on an ongoing basis, as a way to cushion the planned upward annual tariff adjustments.



Electricity

Look back

Government intended on implementing a Renewable Energy Investment Plan that would improve the energy mix. This would include scaling up the programme of rural electrification through the extension of the grid network and deployment of off-grid electrification solutions. As at 31 December 2021, 18 projects were completed consisting of 11 Grid extension projects and seven solar power plants (Source:ERB Sector report 2021).

The stimulus plans

Providing access to electricity to all Zambians remains one of the top aspirations of the New Dawn Government. In the year to date, the Country has achieved a surplus in electricity generation capacity of 1,156 MW following the coming on board of 600 MW generation capacity at the Kafue Gorge Lower Hydro Power Station.

To improve the energy mix, Government intends to engage Maamba Collieries to increase thermal power generation from 300 MW to 600 MW.

Government has also increased allocation to the Rural Electrification Programme from K362.2 million to K743.6 million as it continues to improve access to electricity for the country.

Our view

Government pronouncements regarding excess power generation capacity of 1,156 MW at the end of September 2022, is encouraging as it sets a conducive energy security environment for various economic growth plans, top of list include the annual copper production of 3 million tonnes target. This is likely to encourage investors to align and fast track various investments.

The Country energy mix needs steady but timely improvements, given hydro electricity continues to account for more than 80%. In 2016, El-nino weather effects brought to light how significantly vulnerable the country energy supply is to climate changes. With El-nino weather effects projected to occur on a 7 to 10 years cycle, Government is encouraged to plan ahead for its effect, including significantly enhancing the energy mix in support of achieving the target of estimated peak electricity demand of 10,000 MW by 2040.

Petroleum

Look back

With the Government's commitment in 2022 to reform the fuel supply procurement process, the 2023 budget has shown consistency with its decision to withdraw from the importation and supply of petroleum products. It is Government's view that this decision will not only provide business opportunities to Zambians to take part in the petroleum supply chain and create jobs but will also lower the transaction costs due to the elimination of middlemen.

Further, Indeni petroleum Refinery Company Limited (INDENI), the Country's fuel refinery, continued under care and maintenance in the year, having been shut down in December 2020. In the 2023 Government budget pronouncements, INDENI is set to play other roles in the petroleum supply chain, which will not include feedstock processing. (Source:2023 National Budget Speech).

The stimulus plans

In its continued effort to transform the fuel supply chain aimed at reducing transportation cost (currently on-road transport mode), Government has announced plans to transform Tanzania-Zambia Mafuta (TAZAMA) 1,710 Km pipeline from being a petroleum feedstock carrier to a finished products carrier.

In the long term, Government's 8th National Development Plan (NDP) indicates a focus to increase government owned storage capacity as well as national fuel mix, as follows:

- fuel storage capacity increased to at least 550,000 cubic meters by 2026 (currently 401,348 cubic meters);and
- the percentage of biofuel in the national fuel mix is expected to increase to 20% by 2026.

Our view

Government's decision to reform the procurement processes to achieve a low cost pricing for fuel will contribute to helping the economy recover, given Fuel price affects the cost structure of all industries.

That said, the use of the TAZAMA pipeline for the transportation of finished product does raise the question of how the security of the product will be assured. The risk of vandalism will be heightened and linked to that, the possibility of significant environmental damage from human initiated leakage.

Our view is that the costs and associated risks could outweigh the benefits derived.

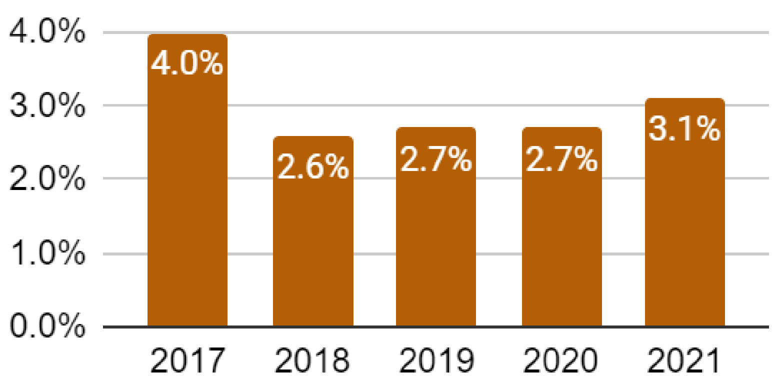
Agriculture

Look back

The sector mainly comprises three broad categories: crops, livestock, and fisheries and is dominated by small scale farmers who account for approximately 90% of agricultural producers, most of whom are involved in the production of staple foods, particularly maize.

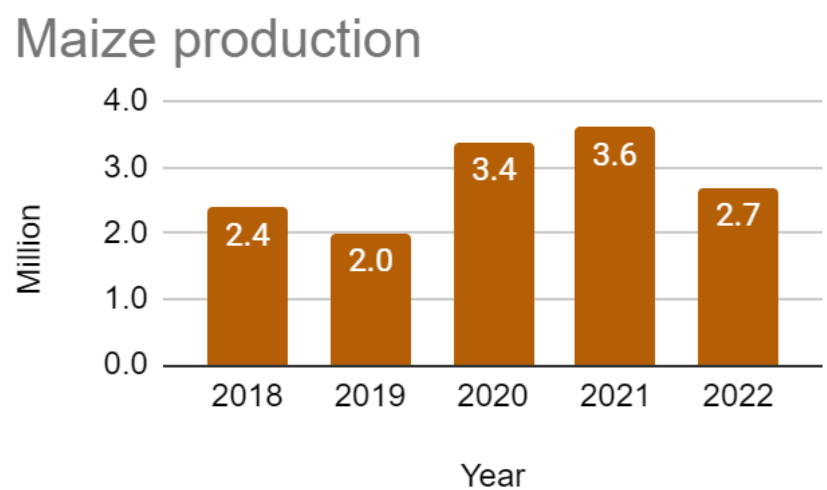
On account of being the largest employer, the agricultural sector remains critical to achieving the Government's ambitions of economic growth and job creation. It is for this reason that the Government seeks to promote agriculture as a way of diversifying the economy away from an overreliance on copper through industrialisation with a focus on value addition.

Stimulating growth in this sector remains critical given that its contribution to GDP has stagnated at about 3%.



Sector's contribution to GDP

Maize production in the 2021/2022 crop season dropped by 25% from 3.6 million tonnes recorded during the 2020/2021 crop season. The Ministry of Agriculture attributed this drop to a reduction in the area planted and lower yields as a result of late onset of rains and drought. Despite this drop, maize continues to be the largest contributor to crop production. According to published data by the Ministry of Finance and National Planning for the 2021/2022 crop season, maize accounted for 72% of total crop production. Other crops with notable contribution were, soya beans (8%), wheat (4%), sweet potatoes (4%) and groundnuts (3%).
Below is a summary of maize production in metric tons over the last five years:



Agriculture

The stimulus plans

To stimulate growth of the sector, the government is proposing to implement the following measures:

- Improve extension service delivery to small scale farmers;
- Construct a total of forty dams across the country over the medium term. Sixteen of the forty dams will be constructed in 2023, including a USD 10 million investment to actualise the Chiansi Irrigation Scheme in Kafue District;
- Reform the FISP to include extension service support, irrigation development, access to finance,support to value addition, storage and logistics. The expanded farming programme will be called Comprehensive Agriculture Support Programme (CASP) - details of which will be announced by the Minister of Agriculture; and
- Accelerating farming block development funded by US$300 million concessional funding obtained from the World Bank for the development of blocks such as Nansanga in Central Province, Luswishi in Copperbelt Province and Luena in Luapula Province.

The above measures are intended to increase productivity, contribute significantly to economic growth, job creation and economic diversification.

Our view

The sector continues to be key to the development of Zambia, therefore, its performance equally remains critical to the current and future prospects of the wider economy.

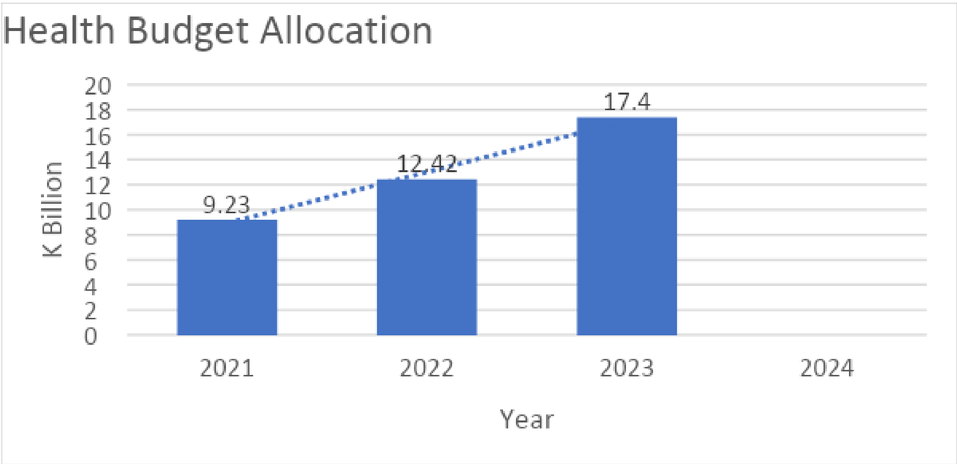
It is encouraging that the measures announced in the budget signal the government's intent to stimulate growth of the sector and address some of the issues raised by different stakeholders including: the over-dependence on rainwater; late delivery of farming inputs and a lack of mechanisation in the sector.

The issue of rainwater dependence is further compounded by the negative impact of climate change. It is therefore encouraging to note that Government has secured USD10 million to fund the Chiansi Irrigation Scheme in Kafue District. This is a step in the right direction and continued investment in similar schemes will be needed.

Health

Look back

The health sector continued to make strides towards the achievement of the 2030 Sustainable Development Goals (SDG), specifically (SDG3) with the onboarding of 11,276 health workers of which 8,563 are already on government payroll. Although in our rear view mirror, the COVID-19 pandemic serves as a current reminder of the gaps and inadequacies present in our health sector such as availability of bedspaces, limited number of health care workers and short supply of essential commodities, specifically oxygen that cannot go unnoticed to prevent future catastrophes.



The stimulus plans

SDG3 aims to reduce global maternal mortality ratio, end preventable deaths of newborns and children; end the epidemics of AIDS, tuberculosis, malaria and other communicable diseases; reduce mortality from non-communicable diseases for which the national budget will fund.

The Hon. Minister highlighted the importance of investing in the health of citizens to aid the stimulation of growth by doing the following:

- Allocating K1.1 billion to finance the construction and completion of 36 district hospitals,16 of the 115 mini hospitals and 83 of the 650 health posts countrywide in an effort to reduce the long distances covered to access health centres.
- To strengthen the maternal health care, and child survival interventions, government plans in future to construct maternity wings at all health centres.
- Allocating K900 million for the procurement of medical equipment and ambulances to address the inadequacies of current equipment and supplies as well as the issues faced around poor transport facilities.

Health

The stimulus plans

Allocating K4.6 billion for the procurement of drugs and medical supplies to ensure continued availability of the essential medicines, support operational and logistic costs including supply end-line distribution and end-user monitoring.

To further reduce the gaps in health personnel to population ratio, by recruiting an additional 3,000 health care workers. A review of the auditor general payroll report for the years ended 31 December 2017 to 2021, showed that MOH had 62,739 established positions of which 61,388 officers were on payroll. This represents a gap of 53% against the set target capacity of 129,389 health officers. The patient health worker ratio was 16.5/10,000 against the World Health Organisation (WHO) target of 35/10,000 according to the mid-term review of the Zambia national health sector plan 2017-2021.

Our view

The increase in allocation to the health sector of K4.98 billion or 40% compared to the 2022 budget is welcomed; the Government is encouraged to ensure that the release of funds is timely and in full.

The Health sector allocation accounts for 10% of the total annual budget, an improvement from 8% in previous years, but falls far short of the 15% target as set in the WHO Abuja Declaration. With the increased allocation towards drugs and medical supplies of 4.6 billion, a 35.7% increase from the 2022 budget, capacity improvements should be made at the Zambia Medicines and Medical Supplies Agency (ZAMMSA) with regards to the skills and competencies of the workforce to streamline the hiccups faced in procurement of essential drugs and medicines.

In addition the Government is encouraged to pay the outstanding drug debt which would unlock supply from traditional, reliable pharmaceutical suppliers.

Furthermore, Government must continue to champion COVID-19 vaccines; as of September 2022 the level of fully vaccinated people stood at 6,002,517 translating to a coverage of 56 % of the eligible population with 672,870 people having received a booster shot.

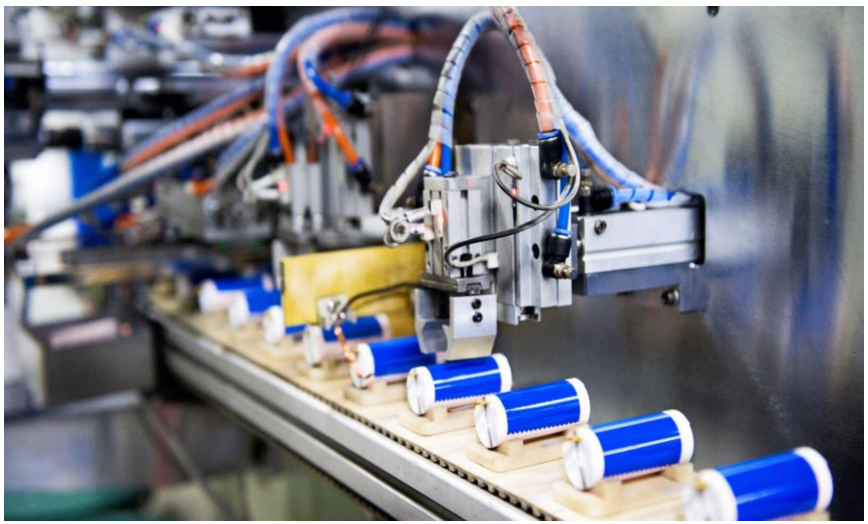
Manufacturing and international trade

Look back

The Manufacturing sector continues to be prioritised as a key driver to achieving economic transformation.

The Zambia Development Agency (ZDA) continues to offer incentives for investing in MFEZs and industrial parks as a way of supporting the manufacturing sector and economic growth. However, these have not yielded the desired results considering the continued low GDP contribution of 9.4% compared to sectors of similar importance.

Despite Zambia's great endowment in raw materials, energetic labour force, abundant land, water and vast mineral resources, the sector's contribution to the country's GDP, at under 10 per cent, has been insufficient for wealth creation and employment.



The stimulus plans

In line with the theme: of stimulating economic growth for improved livelihood, Government has set in measures to expand the growth of the sector:

- Suspending excise duty on locally produced clear beer from cassava to 5% from 10%.
- Suspending excise duty on locally produced clear beer made from malt to 20% from 40%.
- Introduce income tax concessions for fifteen years on income generated from local sale of corn starch by agro processing business operating in Multi-facility Economic Zones , industrial parts and rural areas .
- Government has also facilitated the establishment of a multi-facility economic zone in Kalumbila to promote mining and non-mining linked manufacturing for both the Zambian and the Congolese markets. With this,Kalumbila will become an industrial city, grounded on supporting the mining industry.

The measures will apply to production over and above a specified threshold for a period of three years effective in the last quarter of 2023.

Manufacturing and international trade

Our View

The manufacturing sector holds the key to Zambia's economic transformation by producing higher-value goods and services, generating better-paying jobs, and encouraging innovation and improved processes. Due to the strong linkages between primary sectors such as agriculture and mining, the success of the sector will heavily impact the success of other sectors. Government must therefore establish a strong manufacturing sector to realize economic and socio-cultural benefits.

There is need for more government discipline in fiscal affairs to address the range of adverse impacts on the manufacturing sector development that arise from macroeconomic instability such as high-interest rates and restricted access to capital for private firms as the government's high borrowing on the domestic market crowds out the private sector. Further, the new tax incentives revisions (refer to our Section 3 Taxes) are welcome as they will encourage more SME participation in the manufacturing sector and contribute to the growth of the economy as a whole.

Tourism

Look back

Tourism is recovering from being the hardest hit sector as a result of the COVID-19 pandemic which in the last two year almost brought to the grounding halt of the sector globally. Travel bans have been lifted and various incentives have been provided to the sector as a means of stimulating its growth. Among the incentives provided by the Government for the 2022 fiscal year included an extension of the lower corporate tax rate on income earned by hotels and lodges from accommodation and food services of 15% (from pre-Covid rate of 35%) and a waiver of customs duty on tourism vehicles.

The tourism sector has further benefited from the sharp decline in the inflation rate from 22.1% in September 2021 to 9.9% as at September 2022, arising from increased domestic customer spending power leading to an increase in domestic tourism. International tourist arrivals have also increased significantly by 107% from 239,885 arrivals in 2021 to 496,456 arrivals in 2022.

Furthermore, the easing of COVID-19 restrictions enabled the Government to host a number of meetings, international conferences and events within the year.

The stimulus plans

The Government is in the process of securing a US$100 million loan from the World Bank which will assist in funding various infrastructure projects in the industry and these include Kasaba Bay, Liuwa National Park and other tourism sites which are expected to attract more tourism and facilitate job creation. Additionally, the Government will continue to bid for hosting of international conferences and events in order to further boost the tourism industry.

To increase the efficiency of application processes in the sector, the Government will introduce 26 services on the Government Services Bus which include but is not limited to Bird Hunting Licence, Casino Licence and Professional Hunter’s Licence.

Furthermore, Import duty has been suspended on selected fixtures and fittings, capital equipment, machinery and safari gaming vehicles, for a period of 3 years up to 31 December 2025.

In order to facilitate an increase in tourist arrivals, visa requirements have been waived for tourists from the United Kingdom, United States of America, Canada, Norway, Australia, China, Japan, South Korea,the Gulf and countries of the European Union effective midnight on 1 October 2022.

Our view

The plans set out by the Government to boost the growth of the tourism sector are well thought through and achievable if properly implemented. We expect to see an increase in jobs, infrastructure and marketing campaigns in the coming years.

The Government may however be faced with challenges arising from the need to balance the allocation of funds between the tourism sector and to other sectors which may quickly generate revenue, and thus may lose sight of the plan that has been set. It is however important for the Government to keep in mind the importance of the tourism sector to our economy.

Water and Sanitation

Look back

Zambia's vision is to provide access to clean and safe drinking water to 100 % of the population and improved sanitation to 90% of the population by 2030. However, according to the Zambia Water Supply and Sanitation Diagnostic Report done by Water Global Practice of the World Bank in June 2020, access levels remain low with about only two thirds of the Zambian population having access to basic water services and about half having access to basic or limited sanitation.

The country failed to achieve the targets set in the Seventh National Development Plan of access to clean and safe basic drinking water to 100% of urban population and 70% of the rural population by 2021 and these targets have since been revised downwards in the Eighth National Development Plan to 98% for urban population and 67% for rural population by 2026.

According to the same World Bank report, the slow progress in attaining objectives in the sector has been contributed by the focus on financing large bulk water infrastructure projects while giving less attention to improving efficiencies of the country's Commercial Utilities (CUs).The diagnostic exercise found that during the period 2001-2017, Zambia's CUs lost an estimated US$858 million due to high levels of water lost through leaky water distribution networks and low bill collection efficiency. The Report recommended a shift in focus from financing large infrastructure projects to financing improvements in the efficiency of CUs.

Zambia's spending in the sector has averaged only 0.3% of GDP over the past decade against a recommended average spend of 1.3 % for low to middle-income countries according to the World Bank and this has also contributed to the slow progress in the sector.

The stimulus plans

The Government will accelerate the completion of construction and rehabilitation of water supply and sanitation infrastructure with the following projects planned to be completed in 2023:

- Kafulafuta Dam Project; and
- Lusaka Water and Sanitation project.

Other water and sanitation projects which are on-going include:

- Integrated Small Towns Water Supply and Sanitation Project in Nakonde and Mpika Districts.
- Nkana Water Supply Project.
- Chipata Water Supply and Sanitation Project.
- Zambia Sanitation Project on the Copperbelt.

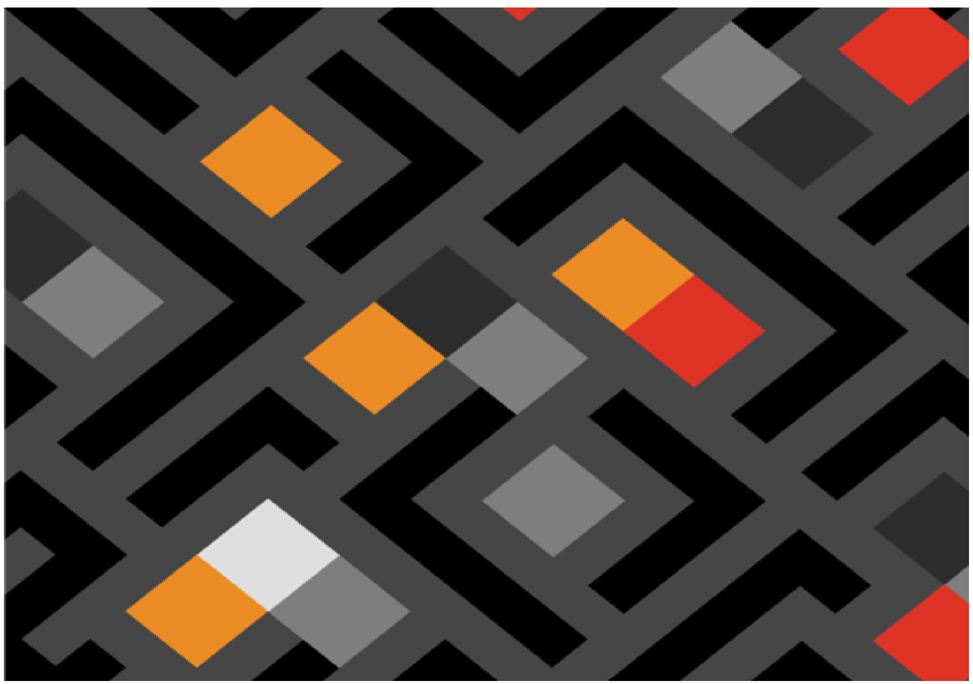
Furthermore, Government launched the Zambia Water Investment Programme to increase access to clean water and sanitation services especially in the rural areas. Development partners will be engaged to mobilise resources to finance the Programme.

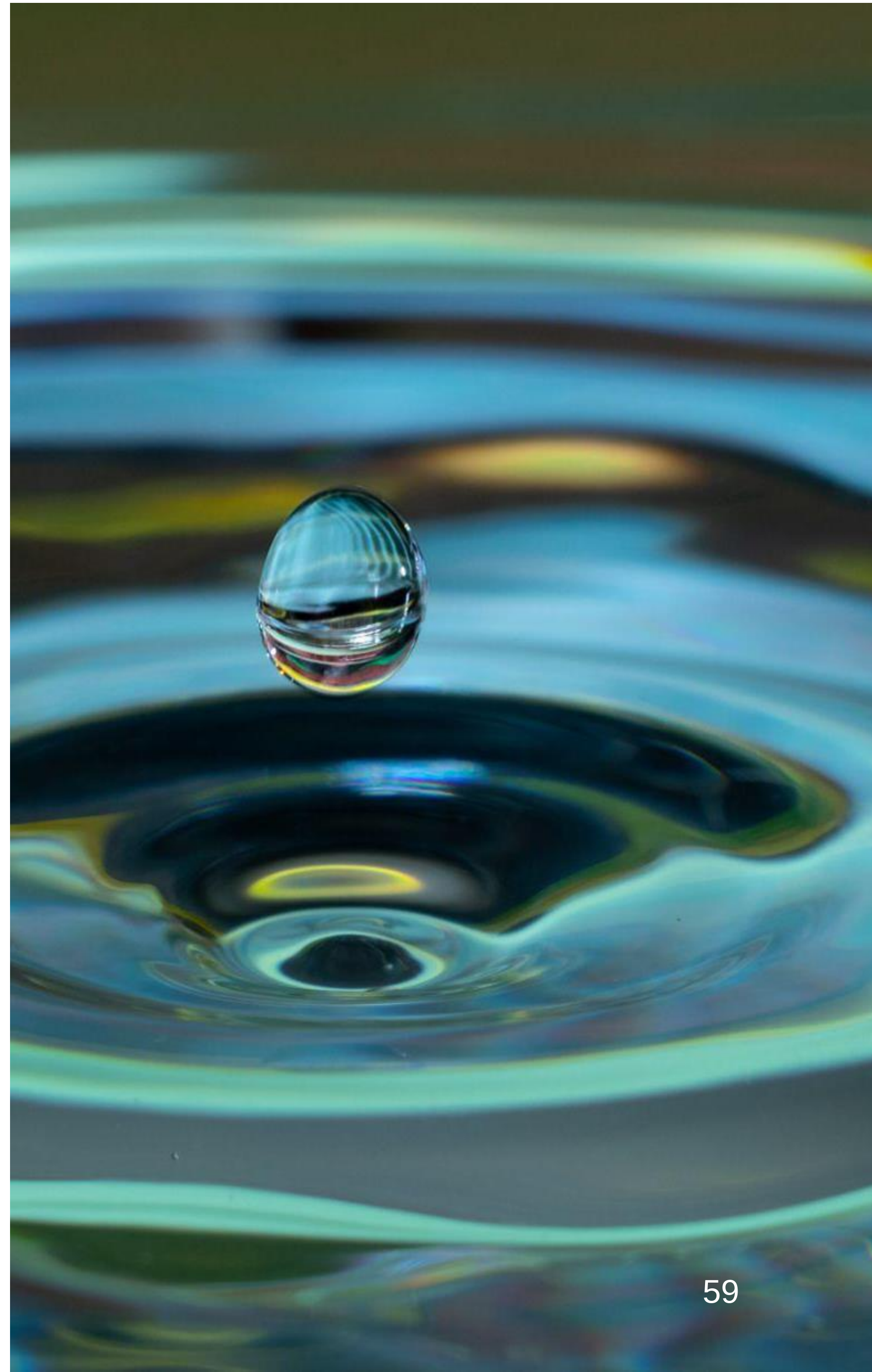
Water and Sanitation

Our view

Water, sanitation and hygiene (WASH) sector is critical for socio-economic development, healthy environments and is vital in reducing the burden of disease and improving the health, welfare and productivity of the population.

To meet the set objectives, Government needs to strengthen the CUs by financing improvement in their operational efficiencies. This will require more funding for the sector. The proposed reduction in the budget allocation for water and sanitation from K2.4 billion in 2022 to K2.3 billion in 2023 is likely to slow progress in the attainment of set targets.





Transport and Logistics

Look back

A good transport sector is the backbone of any economic development of a country. Efficient and effective facilitation of commerce and trade in goods and services, as well as the movement of people is anchored on a good road, railway, water and air transport system. Therefore, the importance of an efficient transport network system cannot be overemphasised.

Road - The 2022 budget placed a lot of emphasis on the rehabilitation of economic roads such as the Lusaka-Ndola, Kazungula-Sesheke and Chinsali - Nakonde road of which government has completed over 60km of lot 1 from Chinsali to Isoka; the total stretch of the road is 210 km. In August 2022, government released K354 Million for road infrastructure development and maintenance in line with the Eighth National Development Plan (8NDP) and has been directed at major roads such as the Chingola - Kasumbalesa and Kazungula-Sesheke roads.

Air Transport - In December 2021, Government launched Zambia Airways (partly owned by the Industrial Development Corporation (55%) and Ethiopian Airlines (45%)). Zambia airways is currently servicing both local and international routes such as Johannesburg, South Africa.

Rail - During President Hichilema' state visit to Tanzania, Zambia and Tanzania, resolved to revamp the railway line that connects the two countries as part of their measures to improve bilateral ties and enhance trade between the two countries.

The stimulus plans

Government acknowledges that there is still a lot of outstanding work to be done in the transport sector, owing to challenges in securing funding. The Government has, however, set up plans which focus on positioning Zambia as a regional transport and logistics hub.These plans have been clearly outlined in the 8NDP. Like the 2022 budget, government continues to prioritize Public Private Partnership (PPP) by encouraging the private sector to take the lead in funding road projects and infrastructure with good traffic volumes. In addition, Government plans to rehabilitate and maintain rural roads across the country to improve access to communities, using the Zambia National Service (ZNS) that will be re-equipped.

Air Transport - In line with the 8NDP, Government has committed to have aerodromes around the country upgraded with all the necessary infrastructure. This is aimed at promoting tourism and trade in the country.

In the rail subsector, Government continues to engage with its neighbouring countries to improve the railway network to facilitate trade in the region.

In 2023, Government is set to establish the Kazungula bridge Authority in collaboration with Botswana to manage the bridge on a 24 hour border operation basis. Further, as a measure to reduce time spent at the border, government plans to construct and upgrade infrastructure at key border posts such as Sakania, Chalwe, and Mokambo to mention but a few.

Transport and Logistics

Our View

It is commendable that the Government has continued to pursue collaboration with the private sector through the PPP vehicle. It is important for government to adopt strategic PPP policy choices that support a robust PPP framework to fuel growth in this sector. The Government can learn from other successful PPP models in Africa, such as in the Kigali Bulk Water project in Rwanda (a PPP between the government of Rwanda and the Kigali Water Limited) in which a 25-year concession agreement was signed to provide water to Kigali Special Economic Zone. While it is important to note that PPPs present a lot of opportunities, it is important for the government of Zambia to continuously address the numerous challenges faced in actualising them. Through the upcoming amendments to the PPP Act, we hope that the government can address the regulatory inadequacies identified in it.

Government's efforts to accelerate the completion of the Kasama and Mbala airports again through PPP, will further open up the northern region of Zambia to trade and tourism not only locally but also internationally. Existing airport infrastructure such as that at Kenneth Kaunda and Simon Mwansa Kapwepwe International is part of the vision to make Zambia a regional hub.

Government deliberate steps to ensure that at least 30% of bulk cargo is moved off the road and onto rail, will stimulate infrastructure development of the rail system.

Social Protection

Look back

Poverty levels continue to remain high with Zambia still ranking as one of the countries with high incidence of poverty in Africa and globally. The high poverty levels are attributed to poor levels of education, nutrition, earning, income avenues, inability to afford agricultural inputs, and lack of capital to start or expand own business. Zambia has a population circa 19 million with an average population growth of 2.8% per annum between 2006 and 2020.

In response to the poverty levels and related inequality, the country has continued to see some improvements in the access to social protection services such as the provision of food security packs, social cash transfers and public welfare assistance for the vulnerable. The Social Cash Transfer program has increased from 2,905 beneficiaries in 2006 to 880,539 in August 2021. 973,323 beneficiaries were on the program in July 2022 with a target increase to 1,021,000 by end of 2022. The number of farmer households supported with food security packs increased to 36,300 in 2021 from 28,527 in 2006. In addition, pension obligations are being settled when they fall due.

The stimulus plans

The Zambian Government promises to continue to scale up social protection programmes. Interventions over the 2023-2025 medium term will include Scaling up of the Social Cash Transfer (SCT) and the Food Security Pack (FSP) Programmes by increasing the number of beneficiaries covered and the transfer value while increasing support towards other social safety nets such as; Keeping Girls in School Initiative and Public Welfare Assistance Scheme.

In order to achieve this, the Hon. Minister proposes to allocate K8.1 billion which is a 29.1% increment from the 2022 allocation of K6.3 billion. Out of the 2023 total national allocation, K2.4 billion will be allocated to retirees under the Public Service Pension Fund while K30 million will be allocated to retirement benefits under the Local Authorities Superannuation Fund.

Further, the Government will increase allocation to the Social Cash Transfer Programme by 19.8% to K3.7 billion from K3.1 billion in the current year, coupled by an increment in the Food Security Packs allocation of K1.2 billion to support the vulnerable but viable farmers and, it has allocated K133.5 million towards the Keeping Girls in School Programme.

Social Protection

Our view

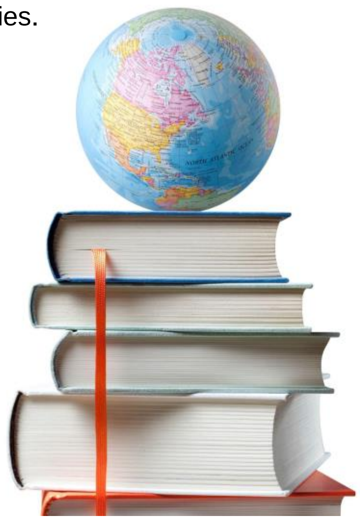
According to the 8NDP effective implementation of the social cash transfer interventions have faced several challenges such as poor earmarking of beneficiaries, low integration of social protection programs and intermittent release of funds to cash transfer beneficiaries. Our view is that the Government's focus should be on creating a transparent, credible system that allows for increased use of electronic and mobile payment gateways that will allow for the retention, security and maintenance of data as well as prevention of leakage of amounts to ineligible beneficiaries. This will ensure that Governments interventions will reach the intended beneficiaries in an environment of transparency and accountability to aid sustainable and progressive outcomes.

Education

Look back

The Education sector has been an area of focus and area of scrutiny from various stakeholders following the proposals made by the current government during the last budget reading in parliament. The main areas of focus being the free education policy, teacher recruitment, education scholarships and plans to build more schools.

The abolishment of tuition fees and other direct fees chargeable such as PTA fees was effected in 2022 and provided broader access to basic education for the populace. The resulting overwhelming enrolment has placed pressure on the education system. It is positive to note that as of August 2022, the government have recruited and deployed 30,496 of the targeted 30,000. Of these 27,645 teachers have been placed on the payroll after completing reporting formalities.



The stimulus plans

The Hon. Minister noted gaps that still exist despite the effort that has been made towards the education sector so far, and in the same vein proposed solutions that would help address these as follows:

- The educational curriculum requires updating and the government intends on making revisions to include financial literacy and management, as well as anti fraud and anti corruption aspects.
- To address the lack of investment in infrastructure such as classrooms and ICT equipment, Government has proposed to build 120 new high schools with the financial aid of the World Bank, build 56 early childhood learning centers as well as invest in digital technology in schools. They will also complete 115 secondary schools that were abandoned midstream since 2010.
- An ongoing challenge in achieving quality delivery of education has been the reluctance of teachers to take up rural positions or not performing adequately in these rural areas. As a solution, government has proposed to allocate resources towards deploying standards officers that will conduct school inspections to ensure that schools countywide are maintaining the expected government national standards of learning
- Despite this years recruitment, there is still need for more teachers, and 4,500 additional teachers will be recruited in 2023
- In addition, teachers that have not been promoted for years or have been in acting capacity, will now be promoted and placed in their rightful positions. All in an effort to boost teacher morale

Education

Our view

The Zambian education sector has suffered from continual under investment that has resulted in weak access and poor education outcomes. The Government has made commendable progress in correcting this position and has increased the allocation to education from below 12.5% in prior years to 13.9%. SDG4 on Quality Education targets education spending at 15 to 20% of public expenditure and it is important that Zambia begins to meet these targets.

Zambia's education quality still falls short of national and international standards and it is good to see the government plan for improvements through various efforts such as reducing the teacher-pupil ratio, deployment of standards officers for school inspections and amendments to the curriculum.

Following the increase in CDF allocations, it will be also important to see that a significant portion of this fund is focused on procurement of desks, building of additional classroom blocks at already existing schools to match the increased number of children that are enrolling into schools. Investments in upgrading the curriculum, STEM and establishment of more polytechnic institutes across the country are vitally important if Zambia is to produce a workforce that is competitive and work ready. The additional resources required to achieve this remain scarce in the current environment and the nation continues to look to the Hon. Minister to achieve the continual delicate balancing act.

Information Communication and Technology

Look back

In 2021 the Government created the Ministry of Technology and Science which brought together key institutions including SMART Zambia, ZICTA, Communications and NISIR. The Ministry formulated a 100 days plan that outlined its key priorities across its focus areas of Infrastructure, Government operations, Policy enablement and Education. Notable success include the launch of a National Skills Youth Empowerment programme at the end of 2021, and in 2022, disbursement of a K12 million research grant to support science and technology research and supporting the private sector to launch 5G network. A national satellite committee has also been appointed as Zambia seeks to launch its first satellite by 2026.

The stimulus plans

The Hon. Minister has outlined the following key pronouncements in the sector.

Government operations

Continued support for SMART Zambia remains key to enhancing revenue collection and enhancing service delivery. The Hon. Minister announced an additional 100 services will be automated and included on the Government Service Bus bringing the total services to 362.

The Hon. Minister also emphasised the need for better use of IFMIS and its integration with other key systems such as ZRA online and the Land Management System to curb revenue leakages.

Communication and ICT development

The Government has stated its commitment to creating an enabling environment for adoption and application of science, technology and innovation and enhance investment. The following initiatives were announced:

- Implementation of the National Digital Transformation Strategy and formulation of policies to encourage the uptake of ICTs by persons with disabilities.
- Government to review the Information and Communication Technology Act No. 15 of 2009.
- Government to review the Postal Services Act No. 22 of 2009 to ensure fair competition in the provision of postal and courier services.
- Government to implement the Electronic Cargo Tracking System to curtail transit fraud.
- Government to zero rate the supply of selected ICT equipment.

Our View

Investment in Information and Communication technology (ICT) to support digital transformation and innovation is a key enabler for the Economic Transformation and Job Creation agenda as highlighted in the 8th National development plan. The government has continued to show commitment in ICT investment and it has made a number of pronouncements that are inline with the priority areas highlighted by the Ministry of Technology and Science.

It was however unfortunate to note that the roll out of the Digital ID has not been addressed in this budget. The digital ID will play a key role in integration of systems and boosting compliance at an individual level.

Environmental, Social and Governance (ESG)

Look back

Zambia remains vulnerable to the impact of climate change and from the recent index ranking, the country is ranked as 41st most vulnerable country out of a total of 182 countries (8th NDP). This, notwithstanding the country's vision of attaining a prosperous middle-income status by 2030 and emphasis on development that is anchored on sustainable environment, ecosystems and natural resource management principles.

The New Dawn Government has identified environmental sustainability as one of the four pillars on which its economic transformation will be based. The importance of this particular pillar has been under-scored by the formation of the Ministry of Green Economy and Environment, which we understand has been tasked with formulating policies and legislation around the green economy and climate change. It also promotes investment in economic activities that are low carbon, resource efficient and socially inclusive. The new ministry's work is expected to affect the entire economy.

The stimulus plans

In their continued implementation of the sustainability agenda, the Government has outlined programmes that are aimed at strengthening climate change adaptation and mitigation, and promoting sustainable environmental, ecosystems and natural resource management.

The programmes include:

- Transformation of landscapes for resilience and development; to be implemented through setting up timber exchanges.
- Extend and enhance coverage of early warning systems to facilitate preparedness and prompt response to adverse weather events.
- A total of 120 automatic weather stations to be installed.
- Exempt from withholding tax interest income earned on green bonds listed on the securities exchange in Zambia with maturity of at least 3 years, aimed at encouraging investment in projects with environmental benefits.
- Developing legislation to regulate the carbon market in line with the Kyoto Protocol on climate change.

Our view

The Government has re-echoed its commitment to promoting innovative financing for climate change interventions through mechanisms such as Green Bonds, carbon trading and the establishment of a National Climate Change Fund.

It is now critical that the Government and Private sector worked closely together to hasten the drive of the the green growth agenda that addresses the various aspects of green growth while mitigating the impacts of climate change.

Tax data card

5

Corporate tax rates

Corporate tax rates	2023	2022
Standard rate	30.0%	30.0%
Banks	30.0%	30.0%
Telecommunication companies		
Income not exceeding K250,000	35.0%	30.0%
Income exceeding K250,000	35.0%	40.0%
Farming/agro-processing or export of non-traditional products from farming/agro-processing	10.0%	10.0%
Income earned by producers of organic and chemical fertilizers	15.0%	15.0%
Export of other non-traditional products***	15.0%	15.0%
Income earned by hotels and lodges accommodation and food services*	30.0%	15.0%
Income earned from value addition to gemstones through lapidary and jewellery facilities	25.0%	30.0%
Manufacturing of ceramic products**	0.0%	0.0%
Companies add value to copper cathode	15.0%	15.0%
New listings on LuSE****	2.0% discount	2.0% discount
New listings on LuSE> 33.0% shares taken up by Zambians****	5.0% discount	5.0% discount
Listings on LuSE>33.0% shares taken up by Zambians	5.0% discount	5.0% discount

Corporate tax rates	2023	2022
Advanced Income Tax (on importation of goods in the absence of a valid tax clearance certificate)	15.0%	15.0%
Turnover tax levied on business (both corporates and individuals) with turnover below K800,000 (excludes income earned from consultancy service, property rental and VAT registered businesses)	4.0%	4.0%
Rental income above K800,000*****	12.5%	12.5%
Turnover Tax levied on rental income from K12,001 to K800,000 p.a.	4.0%	4.0%
Turnover Tax levied on rental income of K12,000 or less p.a.Turnover	0.0%	4.0%

*The reduced rate of 15% was only applicable for the period up to 31 December 2022
**The suspension is for the 2022 and 2023 charge years
*** Excludes income from export of minerals, electricity, services and cotton lint exported without an export permit from Minister of Commerce.
****Discount applicable to corporate tax rates and only available for the first year.
*****Corporates with rental income above K800,000 will account for this tax in their income tax return and will not be required to register for turnover tax.

Tax on Casinos, Lottery, Betting and Gaming

Tax on Casinos, Lottery, Betting and Gaming	2023	2022
Casino live games	20.0% of gross takings	20.0% of gross takings
Casino machine games	35.0% of gross takings	35.0% of gross takings
Lottery winnings	35.0% of gross takings	35.0% of net proceeds
Betting (brick and mortar)	15.0% of gross takings*	25.0% of gross takings
Betting (other than brick and mortar)	25.0% of gross takings	25.0% of gross takings
Gaming – Slot machines (Bonanza)	K250 per machine per month	K250 per machine per month
Gaming – Gaming machines (Limited pay out)	K500 per machine per month	K500 per machine per month
Withholding tax on winning from gaming, lotteries and betting	15.0%	20.0%

*The reduced rate is applicable for the 2023 and 2024 charge years.

Capital deductions and losses

Capital deductions*	2023	2022
Investment allowance on industrial buildings** (one off)	10.0%	10.0%
Initial allowance on industrial buildings** (one off)	10.0%	10.0%
Industrial buildings wear and tear allowance	5.0%	5.0%
Commercial buildings wear and tear allowance	2.0%	2.0%
Implements, machinery and plant		
Used for farming and agro-processing	100.0%	100.0%
Used for mineral processing, manufacturing, tourism, leasing	50.0%	50.0%
Used for electricity generation	50.0%	50.0%
Used in mining companies	20.0%	20.0%
Implements, machinery and plant- Other uses	25.0%	25.0%
Motor vehicles		
Commercial	25.0%	25.0%
Non-commercial	20.0%	20.0%

Capital deductions*	2023	2022
Farming		
Farm improvement/ Farm works allowance	100.0%	100.0%
Local content allowance		
Local content allowance***	2.0%	2.0%

Carry forward of trading losses		No. of years
Electricity generation and mining operation	10	10
Other companies	5	5

*Capital allowances are computed on a straight line basis.
** Investment and Initial allowance granted in the charge year in which the industrial building has been put into use. Total allowances claimed should not exceed the cost of the asset.
***Applicable on purchase of tomato, cassava, pineapples and mangoes for processing.

Mining taxes

Corporate Income Tax rate	2023	2022
Mining Profits		
Profits earned from mining operations (for both base metals and industrial minerals)	30.0%	30.0%
Mineral Processing	30.0%	30.0%
Mineral Royalty Rate*		
On ***norm value*** of minerals/precious metals ***under* licence:**		
Base metals excluding copper and cobalt	5.0%	5.0%
Precious metals	6.0%	6.0%
Cobalt and Vanadium	8.0%	8.0%
On ***gross value*** of gemstones/energy minerals ***under* licence**:		
Energy/Industrial Minerals	5.0%	5.0%
Gemstones	6.0%	6.0%

Industrial Minerals: includes a rock or mineral other than gemstones, base metals, energy minerals or precious metals used in their natural state or after physical or chemical transformation. Examples include salt, sand, clay, talc, laterite, gravel, potassium minerals, granite and magnetite.

Withholding Tax on dividends paid by companies carrying on mining operations

	Resident	Non-resident
Dividend*	0.0%	0.0%

Mining taxes

Mineral Royalties on Copper					
2023 MRT bands - price per tonne					
	Price per tonne from US$	Price per tonne to US$	Tax rate %	Tax on band (maximum) US$	Cumulative tax (maximum) US$
First	0	4,000	4.0	160	160
Next	4,001	5,000	6.5	65	225
Next	5,001	7,000	8.5	170	395
Above	7,001		10.0		

Mineral Royalties on Copper					
2022 MRT bands - price per tonne					
	Price per tonne from US$	Price per tonne to US$	Tax rate %	Tax on band (maximum) US$	Cumulative tax (maximum) US$
First	0	4,500	5.5	247.5	247.5
Next	4,500	6,000	6.5	390.0	390.0
Next	6,000	7,500	7.5	562.5	562.5
Next	7,500	9,000	8.5	765.0	765.0
Above	9,000		10.0		

Income Tax individuals

Income Tax Individuals					
2023 Monthly income bands					
	Income from K	**Income to K**	**Tax rate %**	**Tax on band (maximum) K**	**Cumulative tax on income (maximum) K**
First	0	4,800	0.0	0	0
Next	4,801	6,800	20.0	400	400
Next	6,801	8,900	30%	630	1,030
Above	8,900		37.5		

Income Tax Individuals					
2022 Monthly income bands					
	Income from K	**Income to K**	**Tax rate %**	**Tax on band (maximum) K**	**Cumulative tax on income (maximum) K**
First	0	4,500	0.0	0	
Next	4,501	4,800	25.0	75	75
Next	4,801	6,900	30.0	630	705
Above	6,900		37.5		

Non-cash benefits

Housing benefit :

a) Where an employer provides free housing to the employee in a house that an employer owns, then 37.5% from 30% in 2022 of the employee's annual taxable income is disallowed in the employer's tax computation. In cases where an independent and objective valuation of the rentable value of such housing can be determined, the cost to be disallowed is rentable value of that housing.

a) Where employer leases housing and provides this to one employee, then the rentals are taxed under PAYE for that employee. In cases where the leased housing is occupied by more than one employee, then the housing benefit is taxed in the hands of employer by disallowing the rentals.

Staff benefits and withholding tax

Non-cash benefits

Tax on car benefit is payable by the employer at the corporate tax rate based on the following scale charges:

	2023*	2022
Engine size < 1,800 cc:	21,600	K18,000 p.a.
Engine size > 1,800 cc, < 2,800 cc:	36,000	K30,000 p.a.
Engine size > 2,800 cc:	48,000	K40,000 p.a.

* The benefit payable has been increased by 20% from the year 2022

Withholding Tax (WHT)	Resident	Non Resident
Dividend	15.0%*	20.0%*
Branch profits	n/a	20.0%
Interest	15.0%**	20.0%
Coupon Income (Interest) on Government Bonds	15.0%	15.0%
Management or consultancy fee	15.0%	20.0%
Royalties	15.0%	20.0%
Commissions	15.0%	20.0%
Non-resident construction and haulage contractor	n/a	20.0%
Non-resident entertainers/sports persons fees	n/a	20.0%
Reinsurance placed with non-resident reinsurers	n/a	0.0%

Note: The above rates remain unchanged from 2020

*0.0% for dividends paid by LuSE listed companies to individuals.

**interest payable to local banks and financial institutions are exempt. Interest earned by individuals from interest earning accounts and from loans advance by members under the savings group such as co-operatives and village banking is exempt. Also interest income earned on green bonds listed on the securities exchange in Zambia with maturity of at least 3 years is exempt.

Tax Treaties

Zambia has tax treaties with the following countries:

Canada, China, Denmark, Finland, France, Germany, India, Ireland, Italy, Japan, Kenya, Netherlands, Norway, Seychelles, South Africa, Sweden, Switzerland, Tanzania, Uganda, United Kingdom, Yugoslavia*, Zimbabwe*, Botswana**

*These treaties have not been ratified and are therefore infective currently.

**Status of tax treaty currently uncertain.

VAT and Property Transfer Tax

VAT

Taxable supplies- rate	
Supply of goods & services in Zambia	16.0%/0.0%*
Import of goods & services into Zambia	16.0%/0.0%
Export of goods & services from Zambia	0.0%**

*Extends zero-rating to the supply of milk cans, churns and milking machines
*Extend the zero-rating on the rate the supply of selected information and communications technology (ICT) and telecommunications equipment;
*Exempt from VAT, gaming, betting and lotteries
*Exempt from VAT, game animals imported as breeding stock
*Standard rate the supply of petrol and diesel
*Standard rate goods imported by the president
**services are deemed to be exports only when physically rendered outside Zambia

Registration	
Threshold	K800,000 p.a.
Payment and return - due date	
Supply of taxable goods & services	18 days following the end of the VAT accounting period*

Note: The above rates, threshold and deadlines remain unchanged from 2021.

Property Transfer Tax (PTT)*	2023	2022
Land (including buildings)	7.5%	5.0%
Shares**	7.5%	5.0%
Transfer or sale of mining right held by exploration companies	7.5%	10.0%
Intellectual property	7.5%	5.0%
Shares listed on the LuSE	0.0%	0.0%
Transfer of mineral processing and other mine related licenses	10%***	10%

*PTT is payable by the seller by reference to the realised value of property being transferred. In the case of shares the realised value is greater of open market value and nominal value.

**PTT also applies on indirect change in ownership or control of a Zambian entity where the value of transferred shares is more than 10.0% of the value of the Zambia company.

***At the time of the reading of the National Budget it was not clear whether or not the reduction of PTT from 10% to 7.5% on transfer of mining right held by exploration companies also applies to transfer of other mining rights.

Carbon tax and Presumptive tax

Carbon Tax

An annual carbon tax is payable on all motor vehicles as follows:

	2023	2022
Motor cycles	K168 p.a.	K168 p.a.
Engine size < 1,500 cc	K168 p.a.	K168 p.a.
Engine size > 1,500 cc, < 2,000 cc	K336 p.a.	K336 p.a.
Engine size > 2,000 cc, <3,000 cc	K480 p.a.	K480 p.a.
Over 3,000cc	K660 p.a.	K660 p.a.
Vehicles propelled by non-pollutant energy sources	nil	nil

Validity period of the carbon emission tax certificate for vehicles in transit and those that enter for short periods is 90 days.

Presumptive Tax

Public Service Vehicle (PSV) operators are required to pay presumptive tax on each motor vehicle as follows:

Type of Vehicle	Tax per Vehicle per annum (2023)	Tax per Vehicle per annum (2022)
64 Seater and above	K12,960	K12,960
50-63 Seater	K10,800	K10,800
36-49 Seater	K8,640	K8,640
22-35 Seater	K6,480	K6,480
18-21 Seater	K4,320	K4,320
12-17 Seater	K2,160	K2,160
Below 12 Seater	K1,080	K1,080

Deadlines and penalties

2023 Deadlines	Penalty	Interest
Income Tax - Companies		
Provisional tax Return deadlines: First Provisional Tax Return: 5 March 2023 (manual submission) 31 March 2023* (electronic submissions)	Provisional tax: Late filing of return: K600 per month or part month	N/A
*** Returns for companies registered for income tax after 31 March are due 90 days from the date of registration**		
Revision of Provisional Tax Return 30 June 2023, 30 September 2023 & 31 December 2023 (where applicable)		
Payment deadlines: Within 10 days following the end of the quarter	Late payment of tax: 5.0% per month or part month **Underestimation of tax: 25.0%	Late payment: 2.0% + DR N/A
****Note: 2/3 of the total tax liability must be paid by the final quarter or else the 25.0% penalty applies.**		
Final tax return & payment		
Deadline: 5 June 2023 (manual submissions) 21 June 2023 (electronic submissions)	Late filing of return: K600 per month or part month	N/A
	Late payment of tax: 5.0% per month or part month	Late payment: 2.0% + DR

Deadlines and penalties

2023 Deadlines	Penalty	Interest
Income Tax - Individuals		
Final tax return & payment	Late payment of tax: 5.0% per month or part month	Late payment: 2.0% + DR*
Deadline: 5 June 2023 (manual submissions) 21 June 2023 (electronic submissions)	Late filing of return: K300 per month or part month	N/A
Withholding Tax (WHT)		
Filing & payment deadlines: Within 14 days after the end of the month of accrual/payment	Late payment of WHT: 5.0% per month or part month	Late payment: 2.0% + DR*
	WHT late filing of return: K102 per month or part month (for companies) K51 per month or part month (for individuals)	N/A
Payroll (PAYE) Filing & payment deadlines: Electronic returns to be filed within 10 days after the end of the month of accrual/payment	Late payment of PAYE: 5.0% per month or part month	Late payment: 2.0% + DR*
Manual returns to be filed within 5 days of after the end of the month	Late filing of PAYE return: K600 per month or part month	N/A

Deadlines and penalties

2023 Deadlines	Penalty	Interest
VAT		
Filing & payment deadlines: 18 days** after the end of the accounting period	VAT late filing of return: Daily penalty – higher of K300 and 0.5% x tax payable	Late payment: 2.0% + DR*
All annual Income Tax, PAYE and VAT returns should be submitted electronically to the ZRA except for certain small businesses with minimal transactions	VAT late payment of tax: Daily penalty – 0.5% x tax payable	
Turnover Tax		
Filing & payment deadlines: Within 14 days after the end of the month of accrual/payment	Late payment of tax: 5.0% per month or part month	Late payment: 2.0% + DR
	late filing of return: K75 per month or part month	N/A

Key

*DR = Bank of Zambia discount rate

**Withholding VAT agents will be required to submit returns within 16 days after the accounting period.

Transfer pricing

The penalties for non-compliance with transfer pricing regulation is 80 million penalty units (K24,000,000)

Tax Evasion

The penalties for tax evasion on conviction is 300,000 penalty units (K90,000) .

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