

Country Experience - Tax Incentives In Zambia

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Current Tax Incentives

These are provided in the tax law and they include -

- 10 year extended tax loss carry forward periods for mining and energy sectors (5 years for other sectors).
- Accelerated capital expenditure depreciation rates at 100% and 50% on plant, machinery, equipment and buildings for selected sectors /investments.
- Investment and development allowances (manufacturing and farming respectively)

Current Tax Incentives

- Reduced corporate income tax rates at 10% on income from Farming and Agro-processing; and 15% on Income from Non – traditional exports (standard rate 35%).
- Five year tax holidays on approved priority sector activities (e.g. Manufacturing and Tourism) approved investment under the Zambia Development Agency Act).

Current Tax Incentives

- Zero Withholding tax rates on payments of interest and dividends –
 - Interest paid to individuals arising from deposit and savings accounts held with financial institutions
 - Dividends paid by mining companies
 - Five year holiday on dividends paid by farming companies.
- Indirect tax incentives – Reduction or exemption on import duties and import VAT.

Previous Tax Incentives

Zambia has been streamlining the incentives that were/are linked to approval under the ZDA Act from 2012 to date due to, among other reasons:

- Footloose investments.
- Lack of proper sunset provisions.
- Overlap of incentives.
- Over incentivized regime (long priority sector/product list, long duration for incentives)
- Results/impact of incentives not clearly identifiable
- Poor/lack of monitoring of incentives mechanism

Previous Tax Incentives

Some of the incentives that have been removed -

- Tax holidays of 5 or 3 years on small and micro enterprises that were granted based on one's location.
- 5- year tax holidays from year of returning a taxable profit with an additional 5 year period for a reduced tax rate on privileged zones/sectors.

Previous Tax Incentives

Some of the incentives removed cont'...d-

- Five year tax holidays on WHT deductions on dividends.
- Five or three year tax holiday on income earned by small and micro enterprises.
- Five-year tax holiday from the year of returning a taxable profit with an additional 5 year period for a reduced tax rate on privileged zones/ sectors.

Previous Tax Incentives

Some of the incentives removed cont'...d -

- Zero-rating of Value Added Tax on supplies made to companies operating in privileged economic zones.
- Removal of provisions that granted discretion to the Minister in awarding additional tax incentives, where an investment was more than USD 10 million (with the objective of promoting investment).

Administration of Tax Incentives

- Incentive regime provided in the tax law and administered by tax administration.
- Zambia Development Agency approves investments that qualify for incentives and notifies taxpayers on applicable regime though Tax Administration still has to confirm the qualifying incentives (sometimes this is a source of misunderstanding).

Administration of Tax Incentives

- Claw back provision available in the ZDA Act providing for suspension or withdrawal of tax incentives where an entity has not fulfilled its pledge on employment and training.
- Ad-hoc monitoring activities by Ministry of Finance done, e.g. in the year 2013
- ZDA is empowered by law to monitor investments and withdraw investment licence where a business abrogates conditions of the investment licence

Other Matters

- Investment Promotion and Protection Agreements with selected major investments. (no fiscal inclusions)
- Government has undertaken studies in the past 5 years aimed at reviewing and assessing the tax incentive regime so as to reform the regime to meet developmental challenges and align with best practice.
- Tax Expenditure Reporting has been done but not made public from the studies undertaken.

Other Matters

- Regionally, under the Southern African Development Community (SADC) there is an undertaking by members countries to stop harmful tax competition and to have consensus on having a common approach in the application and treatment of tax incentives (e.g minimum tax rates, use of tax holidays).
- SADC has/is developing Guidelines on Tax incentives with input from Member countries aimed at providing guidance on designing of legislation, enhancing transparency and limiting discretion, protection of tax base etc.

THANK YOU