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).



- 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

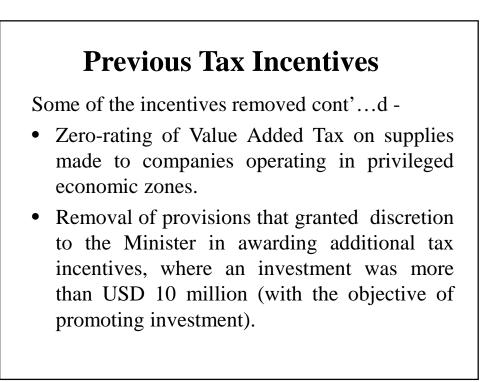
Some of the incentives that have been removed -

- 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

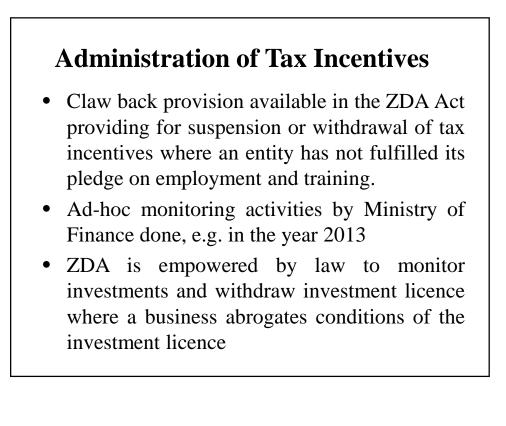
Some of the incentives removed cont'...d-

- 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.



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).



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.

