British
Chamber of Commerce
Zambia

August 31, 2015

The Chief Budget Analyst
Ministry of Finance
Budget Office
4th Floor, Room 504
PO Box 50062
Lusaka

Re. Proposals for the 2016 National Budget

Dear Sir or madam,

Further to your Ministry's call for proposals for the 2016 National Budget, the British Chamber of Commerce Zambia has canvassed its members and hereby makes the following submissions for consideration, specifically in the sector area of Taxation Policy.

The Chamber's membership encompasses businesses in a broad range of sectors, including manufacturing, mining, agribusiness, professional services, property, logistics, telecommunications and financial services.

We therefore humbly submit the following proposals:

1. Streamlining of the Corporate Tax Structure

A relatively high rate of corporate tax compared with other countries, coupled with variations in tax rates across different sectors, has resulted in a complex tax system that is difficult to administer and creates incentives for some unscrupulous companies to manipulate their tax liabilities.

Globally, the trend has been to reduce corporate tax in order to stimulate investment and job creation. In the UK for example, corporate tax is set at 20% and this has enabled its government to strengthen the economy vis-à-vis countries elsewhere in Europe.

The Chamber would advocate a modernisation and streamlining of the existing taxation system, with a uniform 20% corporate tax rate for all companies. This will help encourage investment by both local and foreign businesses.

2. Reduction in Property Transfer Tax

Property Transfer Tax has been set at 10% and is levied on all property transfers including the transfer of shares in a business and mining rights. In addition, VAT of 16% is levied on the sale of commercial property.

Meanwhile, indirect transfer of shares and mining rights, which the tax policy intended to capture, remains untaxed.

This high rate of tax can inhibit transactions themselves or the transparency of such transactions, leading to abandoned transactions or under-declaration of transaction values.

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The current policy is also slowing development and leading to a reduction in government revenue in the longer term.

We propose that property transfer tax be reduced to 2-5% to bring it into line with neighbouring jurisdictions, as set out in the following table:

Jurisdiction	Tax rate
South Africa	0-8% PTT 600,000 – 0% Next 400,000 – 3% Next 500,000 – 5% Above 1,500,000 – 8%
Malawi	3% PTT
Tanzania	10% on the capital gain only
Kenya	2% for rural property and 4% urban
Botswana	5% transfer duty
Uganda	1% stamp duty

3. Removal of withholding tax for company rentals

The 10% withholding tax on property rentals may be appropriate for individuals who may otherwise fall outside the tax net, but it is hampering transactions by investment companies, for whom this tax is an unnecessary "advanced tax" that hampers cash flow and has led to the stalling of a number of investments.

This tax has also been used by unscrupulous companies to reduce the overall amount of tax paid, by shifting income from other areas of business into rentals for property owned, resulting in 10% tax on the rentals rather than 35% tax on corporate profits. The net tax effect is thus negative.

This tax should not be applicable to companies that invest in property and produce annual audited accounts.

4. Reduction of excise Tax on Clear Beer

In January 2014 excise tax on clear beer was increased by 50% from 40% to 60%. The consumption of beer is extremely price elastic, hence the rise in consumer prices resulted in a dramatic fall in sales by local manufacturers and importers of beer, and a substantial increase in smuggling of beer from neighbouring countries.

While short-term excise tax collection has increased, this masks a wider fall in overall tax revenue from the sector as the industry experiences a drop in profits, with a concomitant fall

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in corporate tax payments. In addition, the longer-term impact includes a reduction in investment, job losses, a reduction in sourcing of local agricultural inputs, and cutbacks in support for social programmes and sporting sponsorship.

The increase in excise tax has also set back efforts to migrate consumers away from illicit alcohol and encourage more responsible drinking of safer, cleaner, lower-alcohol clear beer.

It is strongly recommended that excise tax on clear beer be restored to 40% in order to keep smuggling in check and restore inflows of government revenue. Consideration should also be given to reducing the excise rate to 30% in order to take advantage of price elasticities and further stimulate overall revenue collection.

Such moves will increase overall government revenue collection, encourage investment and job creation, curb smuggling and support government drives towards responsible drinking.

5. Reduction of excise tax on spirits

The excise tax on spirits is set at 125% resulting in an almost universal avoidance of tax payments on imported bottled spirits.

The sector represents a tax collection opportunity for government that is currently untapped.

It is proposed that a flat ‘per bottle’ tax be introduced of, say, K30 for 750ml bottle, demonstrated by revenue stickers to be affixed on to every bottle that is imported and sold in Zambia.

Strict enforcement of such a measure would create an important new tax revenue stream for the government, particularly when introduced in conjunction with a reduction of the excise tax on beer.

6. Zero-rating for VAT on exported services

Currently, the export of goods is zero-rated for VAT, while the export of services is standard-rated. This discourages the export of services by Zambian consultants and professional service providers, by making them uncompetitive, particularly in the SADC and COMESA region.

It is understood that Zambia is the only member of SADC and COMESA which charges VAT on exported services.

We propose that exported services are zero-rated, as is the case in most countries, thus stimulating the export of locally based professional services and expertise.

7. Removal of requirement for reverse VAT on online purchases

The online purchase of goods and services, including computer software and social media advertising, through the internet is now widespread by both businesses and individuals.

Such e-commerce transactions are generally automated, with instantaneous purchase using electronic payment systems and computer-generated invoices from non-resident vendors that do not provide for invoice-driven purchases or appoint tax agents in recipient countries.

Such purchases tend to be in the form of numerous low-value transactions and thus it is not commercially viable to appoint a tax agent.

The Chamber proposes a self-invoicing mechanism for reverse VAT, similar to that introduced in South Africa.

8. Removal of excise tax on data services

The changing technological landscape has made the provision of data services for internet, email and file transfer, an essential tool for all businesses.

Excise duty is typically charged on luxury goods and services and thus no longer applies to a business necessity such as data. Continued levying of excise tax on data creates an uncompetitive environment in the region.

We would recommend that the charging of excise duty on data be reconsidered in this context in order to lower the cost of business for all companies and individuals, nurture a fledgling Zambian technology sector, and stimulate opportunities for local providers of internet-based services.

9. Removal of duty on vehicles

Duty is 25% on cars, excise tax is 30% and VAT is 16%. This is compounded to 88% of the CIF value of an imported vehicle and is also applicable to second-hand vehicles.

Economic theory dictates that this prohibitive rate is counter-productive and reduces the absolute amount of tax collected by discouraging purchases, coupled with the substantial incentive to evade duty on those vehicles that are imported.

Reform is needed in this area in order to legitimise transactions and increase the tax accruing to government. One option would be to remove all excise duties on both commercial and passenger vehicles, and instead introduce a significant increase in road tax – perhaps a doubling, but payable monthly rather than quarterly – coupled with an additional K0.50 duty per litre of fuel.

Such measures would regularise the current illicit trade in motor vehicles, extend affordability to motorists and result in a net gain in tax revenue to the government.

The approach would also encourage the importation of new vehicles rather than second-hand vehicles, prolonging the productive use of such imported assets, improving road safety, and reducing foreign exchange outflows required for the importation of spare parts for maintenance.

British Chamber of Commerce Zambia representatives would be pleased to discuss these proposals further should you feel this would assist in policy formulation.

Yours faithfully,

John Paton

Chief Executive