



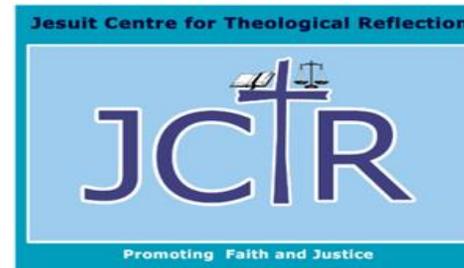
Zambia Tax Platform

Pre –Tax and Non Tax Proposals for the 2016 National Budget

Prepared by
Zambia Tax Platform Secretariat

Contact Details:

The Executive Director
Centre for Trade Policy and Development
P.O. Box 50882
Lusaka.
Telephone: +260211264409
Website: www.ctpd.org.zm
Email: info@ctpd.org.zm



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INTRODUCTION

Formulation of the National Budget is a critical process which affects the entire citizenry hence the need for individuals and groups of individuals to seize a given opportunity to participate and make contribution towards formulation of national budget. As Civil Society Organizations (CSOs) we seize this opportunity to make our contribution into the formulation process of the 2016 National Budget Instrument recognizing that this is an important component of public financial management. We thus implore Government to move quickly towards enacting the planning and budgeting ACT that will provide a stronger framework for citizens' input to the National budgeting process. We believe this would greatly strengthen the participation of ordinary people in this regard and ensure that the felt needs of local citizens can ably shape the allocation and utilization of funds towards improving public services and goods provisioning by Government.

In this submission, we present both the tax and non-tax proposals as elaborated in the table below. Our proposals have been derived from the reflections based on the prevailing economic situation on both the global and domestic front. We acknowledge the government efforts and success in maintaining annual economic growth above 6% even amidst the global economic crisis putting Zambia among the fastest growing economies in the world and above any other in the region. We are also cognizant of the efforts to contain inflation even amidst global economic price volatility and fluctuations; high investment into infrastructure especially the massive road construction in efforts to improve linking different parts of the country to ease transportation of goods, services and movement of the people; critical for propelling economic growth and development.

SOCIAL AND ECONOMIC CONTEXT

The Zambian economy has successfully grown at an average rate of about 6% per annum. But, despite this high income growth civil society in Zambia has observed that a proportionate reduction in poverty has continued to elude the government. Poverty still remains stubbornly high, with national poverty headcount standing at 60.5% and being much higher in rural areas at 73% of the total population. The rapid economic growth has unfortunately happened alongside rising income inequality currently standing at a coefficient of 0.65 on the gini index. The country is also experiencing other challenges such as; a widening fiscal deficit currently standing at 6.5% of the GDP; trade deficit of over 1.2 billion kwacha; tax revenues to GDP stagnating at 15% short of the recommended 30%; high depreciation of the kwacha against major international currencies;

increasing internal and external debt which is estimated to be currently close to \$10 billion, accounting for about 32% of GDP; high unemployment rate especially among the youth and the associated under-reported youth unemployment statistics whose given official percentage of less than 10% not being reflective of the reality on the ground.

We recognize the efforts to develop the agriculture sector in a bid to diversify the economy that has led to the sector growth of 7%. Nevertheless, it is our conviction that more resources should be allocated to the sector to exploit the vast potential for Zambia to be the food basket of the region on top of being a net producer of food to feed its population. This potential has not been fully harnessed as the current programmes in the sector are over concentrating on promoting maize production other than addressing the bottlenecks in the sector to unlock its potential, particularly challenges related to low productivity.

We also appreciate the effort of the government to put in place a conducive investment environment that has made Zambia one of the best destinations of FDI on the continent. On the other hand, Zambia is one of the countries with the highest illicit financial flows on the continent as well as capital flight. Therefore, in the judgement of Civil Society, Zambia presents the classic paradox of being able to attract huge investment inflows but failing to collect adequate taxes to maximize benefits from the resultant economic activities. The low contribution of tax revenues to GDP and specifically the meager contribution of the mining sector to tax revenues, suggest existence of some deep rooted challenges in the formulation and enforcement of the fiscal regime in the sector in particular and other sectors in general. The inconsistency in tax regimes especially in the mining sector, coupled with some weakness in domestic revenue mobilization for example, failure to collect taxes from the informal sector, small and medium scale enterprises is among issues that have caught our attention.

Furthermore, we are concerned with the recent deficits in power generation that has led to the crippling load shedding that is affecting every sector and aspect of life. We are further concerned about the huge cost of public administration that continues to drain public resources that is not supported by the cost benefit analysis.

1.0. REVENUE MEASURES			
1.1. Tax Compensation Measures			
<i>Clearly outlined Current Position</i>	<i>New Proposed measure</i>	<i>Justification for the new proposed measure</i>	<i>Expected revenue impact (i.e. gain or loss)</i>
<p>The Income Tax Act (ITA) provides for different income tax bands for various sectors ranging from 0-40% for example; in agriculture is 10%, mining 30%, while others is 35%; in the mobile telecommunication sector the first K250,000 profits are taxed at 35% while profits above K250,000 are taxed at 40%</p>	<p>Unify corporation tax rates for all incomes irrespective of the source to 30% as this would ease resistance against implementation of capital gains and arrest revenue leakage through tax planning.</p>	<p>Firstly, this will minimize tax planning aimed at tax avoidance especially by companies that are involved in various economic activities that attract different CIT rates. For example those in agriculture and manufacturing finds it convenient to declare the bulk of their profit as having been derived from agricultural activities in order to take advantage of a lower CIT rate in the sector which is 10%. The case in point is the Zambia sugar that avoided paying millions of dollars in taxes using this same strategy.</p> <p>Secondly, The SADC un-weighted average CIT rate is 29.2 percent and moving toward rate unification could be afforded if some of the lower rates were to be raised.</p>	<p>This will minimize tax planning; reduce tax avoidance hence increasing CIT contribution to total tax revenues as a result of improving tax efficiency in collection of CIT in Zambia which is currently at 11 percent, lower than the un-weighted average of 16 percent of SADC countries.</p>
<p>There are large volumes of metal scrap materials being exported from Zambia to neighboring countries yet Zambia too has industries that would use these</p>	<p>Increase export tax on scrap metals to 70% to minimize export of scrap materials and if the volumes of exports are</p>	<p>The export tax of 25% has not been adequate to curtail scrap metals export to protect out steel manufacturing industries and yet yields minimal tax from this booming business. the increase of export tax to 75% may minimize</p>	<p>Reduction in volumes of export of metal scrap leading to these materials being sold to locals industries to boost their production, leading to</p>

materials. The country loses by exporting scrap other than being processed internally. The export of scrap metals attracts only 25% of export tax which in our opinion is to low and hence facilitate exportation of scrap metals	maintained at least this will increase tax revenues generated from exportation of scrap	export of metal scrap and even if it does reduce the volumes at least will increase tax collected from metal scrap exports	more job creation and increased tax collection in the long run
Currently, taxes payable on importation of used cars of the same make (engine capacity, etc) though different manufacturing years pay the same amount of tax.	Introduce an extra 10% charge on any vehicle which is more than 10 years.	Older cars consumes more fuel, and their cost of maintenance is much higher subsequently drain more foreign exchange from the economy through importation of spare parts and also pollute the environment. Therefore importation of very old cars should be minimized or importers be made to pay higher taxes	Reduction in foreign exchange outflows and increase in tax revenues as well
The Withholding Tax (WHT) on rental income is being collected by ZRA which we believe does not have the comparative advantage to effectively collect this kind of taxes compared local councils which are more connected to land lords than ZRA	Transfer the responsibility of collecting WHT on rentals to the local councils for they are in better position to collect this kind of tax because they already have information and data on houses in their localities and they already collect ground rates from all houses. Councils and ZRA should work out mechanisms of how they	The proximity of councils to the land lords gives them comparative advantage to collect this kind of taxes compared to ZRA. Or else going with the status quo ZRA is likely not to collect adequate taxes from this initiative even after spending huge amounts of money sending phone messages to the entire population indiscriminately	More tax revenue WHT on rentals especially taking advantage of the booming real estate sector that is growing and with the potential even to keep growing in the future.

	share the revenues generated		
<p>Incentives Zambia has given too many tax incentives in a bid to attract FDI resulting into foregoing colossal sums of tax revenues coupled with associated high administrative costs for example; in the mining sector; Mining companies are given 10 year period for carry forward tax losses (5 years for Prospecting and 5years exploration).</p> <p>Dividends paid by a company holding a large scale mining license and carrying on the mining of base metals is taxed at 0%</p>	<p>Reduce the carry forward tax loss period to 5 years</p> <p>Introduce a 15% (WHT)on dividends paid by a company holding a large scale mining license and carrying on the mining of base metals</p>	<p>Long period carry forward losses have a negative impact on tax revenue generation from the mining sector</p> <p>Dividend is an income to shareholders therefore it should be taxed. Other countries where mining is done those dividends are taxed e.g. in Congo its 15%, Botswana is 10%. It's also a matter of fairness that all incomes accrues to all individuals is taxes without special treatment</p>	<p>This will increase revenue collection from the sector.</p> <p>More revenue to be collected from the sector</p>
<p>Currently the Income Tax Act provides that none traditional exports are charged 15% export duty an incentive to encourage the exports. Export of timber falls under this category</p>	<p>Export of timber should be scrapped off the list of none traditional export s benefiting from this incentive and 35% export duty imposed on timber export</p>	<p>Zambia is rapidly losing big chunks of forest cover due high harvest rate of trees. We need to protect our forests or else we suffer devastating effects of climate change</p>	<p>Reduction in export of timber and rate of depletion on forests</p>
<p>Currently, Zambia does not have a</p>	<p>Introduce a 30 percent tax</p>	<p>Sugary beverages and high fat content foods</p>	<p>Introduction30% tax on</p>

<p>tax on high caloric foods and sugary beverages yet increased consumption of these foods is linked to a rise in overweight obesity, ultimately contributing to non-communicable diseases such as; Type II Diabetes, Coronary Artery Disease, in the country. For example 23 percent of women alone are recorded to be overweight or obese according to the latest ZDHS 2013-14. Equally, according to a commonwealth report, Non-communicable diseases (NCDs) in Zambia accounted for an estimated 27 percent of all mortality by 2008. Therefore, there is a need for measures targeted at reducing consumption of unhealthy foods</p>	<p>on unhealthy food stuffs (high trans and saturated fat content, overly processed foods and high sugar content) while reduce taxes on health foods and beverages such as fresh fruits, vegetables, nuts, fish and fiber.</p>	<p>have a strong negative association with poor health outcomes. An increase in tax on unhealthy foods will result into increase in their price of these commodities which may result into sharp decline in sales and ultimately consumption of unhealthy foods and in the long-run, decline in the obesity rates in this country.</p>	<p>unhealthy foods is expected to result in a 25 percent decline in the sales and consumption of unhealthy foods. Based on early consumption surveys carried out by the NFNC, reduction in consumption of unhealthy foods would translate into a 3 percent reduction in obesity-</p>
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1.2. Tax Concession Measures

Clearly outlined Current Position	<i>New Proposed measure</i>	<i>Justification for the new proposed measure</i>	<i>Expected revenue impact (i.e. gain or loss)</i>
<p>There is sharp shortage of power/electricity which is negatively affecting the economy and the</p>	<p>Exempt for Domestic and Commercial use for solar panels, accessories and</p>	<p>Exempting solar energy generation equipment and appliances will make them cheaper and encourage small business and households to</p>	<p>Stabilized power generation for continued productivity. Revenue gain from the</p>

livelihood of the people	appliances as well as energy saving bulbs	migrate from hydro to solar energy to conserve power for industrial and commercial use	productivity of various sectors
Currently, Tax free threshold applicable under PAYE is K3,000	Increase tax free threshold under PAYE from K3,000 to K3,300 K0 – K3,300: % K3,001- K4,000: 20% K4,001- K7,000: 25% Above K7,000: 30% Above K10,000: 35%	The cost of living has increased tremendously due to among other things depreciating kwacha making imports expensive and ultimately leading to high cost of basic goods and services	This will lead to reduced tax revenue gain but will increase incomes of workers and might trigger investments
There is still VAT paid on the key agricultural inputs such as; seed, fertilizers and chemicals, and not all equipment that are exclusive for use in agricultural sector are tax exempted as per the incentives in the sector .	Zero Rate VAT on all agricultural inputs and equipment exclusively used in the sector	Though in the short run the proposed measure will lead to some loss of tax revenue but in the long run will boost production in the sector, food security, minimize malnutrition and catalyze growth in agro based industries.	Increased productivity, employment opportunities, food security, improved nutrition, reliable and adequate supply of inputs into agro-based industries resulting into bigger contribution of the sector to GDP and total tax revenues
Currently there VAT on milk, meat and other basic food stuffs	Basic food stuffs should be VAT zero rated	This will make basic food stuffs more affordable to many Zambians critical for improving nutrition, and health quality of our population	Improved nutrition resulting from more affordability of basic foodstuffs by many Zambians will lead to a healthier population, increase productivity, and may in long-run reduce disease burden in the country leading to savings

			in the amount resources allocated to treatment of diseases resulting from malnutrition
Currently, income less than K800,000 is taxed at 3% under turnover tax	Government should introduce tax band for turnover tax to include an exemption threshold to enable support, growth and development of small and medium businesses. the proposed Turn Over Tax Structure based on Annual Income: K0 – K200, 000 :0% K200,001- K350, 000 :2% K350,001 –K800,000 :3%	While tax payers such as those under PAYE have an income tax free threshold currently at K24million per year, SMEs do not have such a relief under turnover tax.	Growth and development of SMEs resulting in increased production, employment and government revenue in the long run.
2.0 NON TAX MEASURES			
<i>Clearly outlined Current Position</i>	<i>New Proposed measure</i>	<i>Justification for the new proposed measure</i>	<i>Expected revenue impact (i.e. gain or loss)</i>
Zambia has given many fiscal incentives in a bid to attract FDI and investments in general. Three institutions are involved in the	Establishment a multi-sectoral Monitoring and Evaluation System where a steering committee	Effective monitoring and evaluation framework for tax incentives will increase compliance, effectiveness and efficiency and subsequently net benefit from tax incentives.	Reduction in abuse of tax incentives, especially for purposes of tax avoidance in the long-run will increasetax

<p>management of incentives namely; MOF, ZDA and ZRA. However, there are weak mechanisms in place for monitoring compliance and assessment of cost benefit of the incentives. Subsequently, some unscrupulous companies have taken advantage of these loopholes abuse these incentives for tax avoidance and facilitating illicit financial flows</p>	<p>comprised of both state and non state actors to oversee the implementation of incentives. The committee should include technocrats from; M&E unit (MoFNP); budget office (MoFNP); Economic Management Division (MoFNP), Ministry of commerce Trade and Industry, Zambia Development Agency, Zambia Revenue Authority, Bank of Zambia, business associations such as Zambia Association of Manufactures, professional bodies, academia, CSOs etc.</p>		<p>revenues</p>
<p>The government is committed to reviewing and re-negotiating outdated DTAs. Our concern is we don't have a standard model to inform our renegotiations and proper monitoring and evaluation mechanism for DTAs</p> <p>At the moment there is no legal</p>	<p>The government should come up with model to inform and guide negotiations of DTAs as well as mechanisms for reviewing monitoring and evaluation of DTAs.</p>	<p>Since DTA provisions take precedence over national laws and provisions it's important that the negotiations are thorough and comprehensive or else DTA may cause loss of colossal sums of tax revenues by giving away too much taxing rights as it is the case with many of the running DTAs a case in point is Zambia- Ireland DTA</p>	<p>Good crafted DTAs that guarantee and protect taxing rights minimize tax revenues loss and on the other hand increase tax revenues needed for provision of better public service</p>

<p>provisions for parliamentary oversight over DTA which places too much and unchecked powers to the executive to commit our country when negotiating and signing DTAs</p>	<p>The government should put in place legislation that demands parliamentary oversight over DTA as a way of increasing checks and balances over this important issues</p>		
<p>Many companies are making profits but not paying any taxes and they cannot easily be traced because currently, there is no legislation that compels banks to demand for tax registration of a business entity before facilitating account opening. Many business transactions are not receipted facilitating tax evasion</p>	<p>Government should enact legislation that compels banks to demand taxpayer registration certificate for any business entity before opening an account Government should enact a law that compels every company registered with PACRA to issue receipts for every business traction and keeps record for ease auditing and</p>	<p>Business operations should be formalised and easy for the government to trace for tax purposes therefore because businesses are set up for purpose of making profits and every profit earned should illegible for paying some kind of tax all business entities should registered for tax purposes and cash payment minimized to easy auditing of the business entities for tax purposes.</p>	<p>This will enhance tax compliance with potential to facilitate easy audit and detection of tax evasion and avoidance which is currently massive</p>
<p>E- Voucher implementation</p>	<p>Government should allocate funds towards the full implementation of the E-Voucher to all the Districts</p>	<p>The full implementation of the E-Voucher will help to recognize variability in input requirements across different geographic locations and agro-ecological zones</p>	<p>This will contribute towards addressing poor targeting challenges With the increased options for farming inputs, it will help to contribute towards Crop diversification</p>

			The full implementation of the E- voucher system would enhance private sector participation in input supply and help in the reduction of wasteful expenditure
There is manpower gap in provisions and support of social and child protection. There are social welfares officers at the district level without assistants at ward and community levels to help in the provision of social welfare services including cash transfers which are now being done by volunteers that are not well supervised and effective	Bearing in mind the prevailing ban on recruitment, government should integrate community development officers and other government officers already stationed and working at community level to strengthen provision of social welfare services such as; social cash transfer and child protection among others at community level.	This will improve efficiency in provision and management of social welfare services and support for social protection, including the administration of juvenile justice system	Reduction in vulnerability, protection of children leading to reduction in children dropping out of school, reduce GBV especially against children which minimize their abilities to maximally and optimally exploit their potential
Education Government introduced compulsory examinable computer science subjects at primary school level yet many school especially in rural areas don't have; electricity, computer labs and computers as well as computer teachers.	The proposal is for the government to postpone this initiative but re-allocate more resources to ensure all schools have the necessary infrastructure such as computer labs, computers, electricity and teachers for computer subjects before they make computer subjects compulsory and examinable.	It's not practical and logical to make computer subjects compulsory and examinable without having in place the necessary infrastructure and logistics.	This proposal will level the ground for all pupils across the country before computer subjects are made compulsory and examinable

	<p>A bigger percentage of the education budget in 2016 should be directed to; improving school infrastructure like building of school, classrooms; recruitment of more teachers to reduce teacher pupil ratio; provisions scholastic materials and teaching aid for early childhood and primary education in general to improve learning</p> <p>The department responsive for ensuring adherence to good standards, inspection and monitoring of schools should be allocated adequate resources in order to execute it work effectively or else many of the private schools are good % percentage of the education budget should be</p>		
<p>Health; The budget allocation to the health sector is short of the Abuja</p>	<p>Increase budget allocations and appropriations towards nutrition to reduce high rate</p>	<p>High malnutrition and stunted growth negatively affect learning capabilities of children of school going age which may lead to</p>	<p>Health population is likely to be more productive, innovative enabling the</p>

commitment by far. More so, less resources have been allocated on funding nutrition, sexual reproduction Health (SRH), HIV maternal health areas that are critical in the sector	of stunted children; HIV prevention & SRH programs & services for Adolescents to reduce HIV infection rates; and maternal health to reduce infant maternal rate	poor performance and eventually high school dropout rates, similarly lack of SRH and HIV prevention services have resulted into increasing number of teen age pregnancy and HIV infections which reduces their productivity and advancement in attainment of their personal goals turning out to be a high cost for country. Infant mortality rate is a huge financial and social cost on any given society	citizens to maximize their potential hence propelling the economy to high heights as opposed to a sick population that is costly on the country in terms of resources used for treating the sick and eroding its human resources.
Inadequate staffing in the health sector; the gap between the needed staff levels and the actual level of staffing is quite huge. In 2015 government the budgeted to recruit a good number of health workers but this has not happened more than halfway into the financial year	Allocate funds for recruitment of more health workers to address the deficit; and appropriate the budget accordingly	Without adequate staffing the health sector is not likely to satisfactorily serve the people	Better staffing in sector is likely to improve service delivery
Social protection Social Cash Transfer (SCT) In order to alleviate poverty Government has the Social Cash Transfer scheme. The budget allocation for the program is currently 0.39% of the national budget and covers about 6% of the poor in 50 districts. Yet the extreme poverty in Zambia stands at 42.3% of the population.	Increasing SCT allocation from 180 million to 296 million kwacha, by doing so government will increase its reach 10% of the people living in poverty across all districts.	Better coverage and impact on poverty reduction and vulnerability;	Reduction in poverty and vulnerability will lead to increase in productivity and consumption power by a higher percentage increasing economic growth
In 2015 budget government did not commit adequate resources for the implementation of the National	Government should allocate adequate resources for the	Implementation of the policy will lead to realization of the intended objective of the policy but that need adequate funding .An	Although this may imply significant increase in expenditure by

<p>Social Protection Policy that affected implementation of the policy</p>	<p>implementation of the policy</p>	<p>initial evaluation of the program has revealed positive outcomes from the programme such as; 11 % point reduction in poverty gap; an increase by 30% points in child material needs being met; people spent most of the money (76%) on food, and the remainder on health (7%), clothing (6%) and transportation (6%)</p>	<p>K1,160,151,619.08 in the long term it is a worthwhile investment in more effective implementation of Social Protection programs and will result in reduction in the incidence and severity of poverty.</p>
<p>Increase Agriculture budget allocation to at least 10% of the total Budget and adjust use of resources in the sector. In 2014 budget 33% of the sector budget was channeled to Farmer Input Support Programme (FISP) which may not be maximizing returns to investment</p>	<p>Reduce the percentage of agriculture budget going to FISP and FRA and set a clear, distinct budget line dedicated to sustainable agricultural systems (SAS) such as; crops diversification; livestock and fisheries production; Irrigation and water management; out-grower small scale schemes; research and development to increase productivity</p>	<p>Such investment will unlock the huge potential Zambia has in the sector to increase its contribution to poverty reduction, job creation, food security, industrialisation, export of non-traditional export and generally diversifying the economy which has been highly talked about without tangible initiatives to make it a reality</p>	<p>Developing the agricultural sector will have positive impact to the economy in terms of poverty reduction, food security, job creation and support the highly cherished industrialization and diversification of the economy</p>
<p>High public administration cost especially exhibited by big cabinet; many ministers, deputy ministers, District Commissioners and their aids earning fat allowances and facilitation yet there value addition is highly questionable other than propelling political patronage. The problem is that each ministry has duplication of functions among the</p>	<p>Reduce the size cabinet, scrap off the position of deputy minister and District Commissioners for they are high public cost with unclear benefits</p>	<p>This high number of Cabinet members is unjustified and waste of resources. When such costs are eliminated the public resources will be saved and applied to more socially useful purposes, such as development provision of social service.</p>	<p>More prudent use of scarce resources to maximize value for money</p>

top personnel, with about 2 deputy ministers per ministry.			
The mining sector is inadequately funded subsequently lacking capacity to effectively monitor the mining companies to be able to address some of the gaps that leads to loss of tax revenues. For instance, funding towards the Mining Units Inspection under the ministry of mines have reduced from K288,300 to K255,000 in 2015	Increase budget allocation to the ministry of mining especially towards monitoring and inspection of activities of the mining companies to ensure compliance and generate information critical for determining production figures	Failure to monitor the activities in the mining sector could have contributed to the low contribution of the sector to total tax revenues. Improvement in the area of monitoring could fetch more	Increased transparency in mining sector has potential to significantly improve revenue collection from the sector

CONCLUSION

The above submissions are a combined effort of different Civil Society Organizations under the Zambia Tax Platform. We are grateful for the opportunity to submit our proposals and are readily available if requested by the Ministry of Finance to meet and discuss the proposals.

This document is endorsed by the following organizations:

1. Civil Society Scaling Up Nutrition Alliance (CSO-SUN)
2. Platform for Social Protection Zambia (PSP)
3. Civil Society for Poverty Reduction (CSPR)
4. Centre for Trade Policy and Development (CTPD)
5. Non- Governmental Coordinating Council (NGOCC)

6. Action Aid Zambia (AAZ)
7. Save the children In Zambia (SC)
8. The Jesuit Centre for Theological Reflection (JCTR)
9. The Church Council of Zambia (CCZ)