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| **A SUBMISSION BY ACTIONAID ZAMBIA TO THE MINISTRY OF FINANCE AND NATIONAL PLANNING ON THE****REVENUE AND NON-REVENUE MEASURES FOR THE 2024 NATIONAL BUDGET** **30th May, 2023****Contact:** Country Director P.O Box 51407LusakaCell: 0977616899 |

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**CONTEXT**

The Zambian economy over the past year has remained relatively stable with inflation and economic growth moving from 4.2 percent in 2022 to a projected 3.7 percent in 2023. In light of the challenging public debt situation and subsequent IMF support, fiscal consolidation has been the approach used by the Government to regain debt sustainability and achieve long-term growth for Zambia.

This entails significant expenditure cuts – particularly on infrastructure and enhanced Domestic Resource Mobilization (DRM) through tax and non-tax measures.

In this approach, policy changes come with both threats and opportunities for the government and the citizenry.

For the citizenry, the reduction in wasteful expenditure and the curbing of corruption unlocks much needed resources for critical social sectors such as education, health, and social protection. Additionally, efforts to scale-up DRM present an opportunity to re-think and improve the taxation system and ensure that there is progressivity and fair collection of taxes, fees, and fines.

The reduction of expenditure does, however, threaten the quality-of-service delivery. Wage bill constraints, for example, limit the number of teachers the Ministry of Education can employ, while the removal of subsidies has implications on the cost of living.

The following proposals will therefore provide recommendations and justifications in light of the aforementioned context to complement the government’s efforts to restore debt sustainability while minimizing the adverse effects of potential austerity measures.

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|  **REVENUE PROPOSALS**  |
|  **TAX COMPENSATING MEASURES**  |
| **PROPOSAL** | **CURRENT STATUS** | **JUSTIFICATION** |
| **Harmonize Corporate Income Tax rates (CIT) for improved Tax revenue collection**  | Currently there are different tax rates depending on industries – ranging from 35% for corporates operating electronic communications networks or service licenses, down to 10% for those in Agro-processing.[Multi Facility Economic zone or Industrial Park further provide for tax rates as low as 0% for their first 10 years of operations](https://taxsummaries.pwc.com/zambia/corporate/taxes-on-corporate-income#:~:text=The%20standard%20applicable%20CIT%20rate,of%20corporate%20entities%20is%2030%25.). | * Harmonizing tax rates would reduce corporates from taking advantage of the tax differences of different industries and would result in increased revenue collection. It would also ease the burden on the tax administration
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| **Increase Taxation of Income from Chemical fertilizer manufacturing from 15% to 30%**  | Income from organic and chemical manufacturing of fertilizers is taxed at a reduced rate of 15% | * This measure will not only bring in additional revenue but will discourage production of chemical fertilizer which contributes to soil acidification and soil crust, thereby reducing the content of organic matter. Furthermore, this measure can encourage production of organic fertilizers
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| **Introduce a 15% WHT on dividends paid by a Mining Company to Individual shareholders**  | Dividend paid by a mining company holding a mining license and carrying on mining operations is taxed at 0% | * This measure will lead to increased tax revenue collection from the mining sector
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| **Release double taxation policy/strategy for improved and negotiation, cancelation, and development of DTAs** | Currently Zambia has 22 active double taxation agreements with jurisdictions around the world and dated from as early as the year 1951 (with France) to 2018 (with the Netherlands). These have been used by multinational companies (MNCs) for aggressive tax planning and has facilitated for illicit financial flows and profit shifting out of Zambia. | * Release double taxation policy/strategy for improved and negotiation, cancelation, and development of DTAs
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| **Introduce a comprehensive and well-defined taxation mechanism for companies that operate within the Zambian Jurisdiction and provide digital services but have no legal presence.**  | Technology Companies such as Meta, Twitter, Netflix, Amazon, and Spotify provide digital services and have a wide Zambian customer base and significant economic presence. Currently, the only tax on Technology companies is rendered through the corporate income tax and is only collected CIT at 35%. Despite global tech giants using our infrastructure and profiting from Zambian citizens, taxes are not collected by the ZRA. The OECD’s 2 Pillar Solution under their inclusive framework further reinforces this practice of taxes only being collected in the developed countries that these multinationals are incorporated in.Lessons can be drawn from other African countries such as Nigeria who tax companies based on their “significant economic presence” at a rate of 6% percent of annual turnover. Similarly, Kenyahas a digital service tax (operating like an excise tax) at 1.5% of value of transactions and is collected through agents who file taxes on behalf of the MNCs. ATAF, who Zambia is a member of have a [guide on introducing digital services](https://www.ataftax.org/ataf-publishes-an-approach-to-taxing-the-digital-economy) | * Taxation of these services would increase domestic resource mobilization from this growing sector.
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|  **TAX CONCESSION MEASURES**  |
| **PROPOSAL** | **CURRENT STATUS** | **JUSTIFICATION** |
| **Reduce PAYE topline threshold from the current 37.5% to 30%** | The current threshold for individuals that earn [K8,900.00 and above is 37.5%.](https://www.zra.org.zm/calculate-paye/)  | * The reduction in the tax rate would reduce the revenue collected from individuals who are formally employed. However, the increase in disposable income would increase consumption and tax collection through VAT.
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| **Increase the PAYE threshold from the current K4,800 to align with the rising cost of living.** | [JCTR’s Basic Needs and Nutrition Basket (BNNB)](https://repository.jctr.org.zm/handle/20.500.14274/1729) for the month of February 2023 in Lusaka, stood at K9,278.06 - significantly higher than the K4,800 amount that is untaxed under the current PAYE schedule. The current tight fiscal space that is being countered by fiscal consolidation means that resources to scale up social protection and curb rising poverty levels and income inequality are insufficient.  | * The adjustment would increase the real income of households and would curb social economic challenges resulting from the high cost of living and tight fiscal space that has limited social protection efforts form the government.
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| **Remove the special goods surcharge on imported feed ingredients (Proteins, Vitamins and Minerals)** | Feed for fish and livestock is expensive beyond ordinary Zambian due to the special goods surcharge on imported feed ingredients (Proteins, Vitamins and Minerals) hence making fish expensive and fewer Zambian engaged in aquaculture. The reduction in the commodity will increase many players in the sector turning Zambia into the production to meet demand and expert | * Feed for fish and livestock is expensive beyond ordinary Zambian hence making fish expensive and fewer Zambian engaged in aquaculture. The reduction in the commodity will increase many players in the sector turning Zambia into the production.
* Improved production of fish and livestock feed to meet demand and export for country revenue.
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| **Maintain Suspension of CIT for Persons carrying on business of manufacturing ceramic products for the 2024 financial year** | Suspended Corporate Income Tax for persons carrying on business of manufacturing ceramic products for the charge years 2022 and 2023 | * This will further enhance the production of ceramic products and create more jobs
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|   **OTHER PROPOSALS INLINE WITH 8NDP STRATEGIC PRIORITIES**  |
| **STRATEGIC DEVELOPMENT AREA ONE: ECONOMIC TRANSFORMATION AND JOB CREATION** |
| **PROPOSAL**  | **CURRENT STATUS**  | **JUSTIFICATION**  |
| Lifting the Ban of Mukula Tree Harvesting and Trading of Mukula Tree | The is a ban on Mukula Tree | * This will create income, jobs and forex for the Government which will in return Boost the National treasuries
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|  **STRATEGIC DEVELOPMENT AREA TWO: HUMAN AND SOCIAL DEVELOPMENT**  |
| **PROPOSAL**  | **PROPOSAL**  | * **PROPOSAL**
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| **Increase the national budget allocation (**[**both the % Share and monetary Size in line with the 4S Framework**](https://actionaid.org/stories/2020/financing-education)**) for education to the UNESCO standard of 20% for developing countries.** | Currently for 2023, the allocation to education sits at 13.9%, an improvement from the 10.4% in 2022. This allocation is still well below what is required to achieve SDG4. | * Increase the national budget allocation ([both the % Share and monetary Size in line with the 4S Framework](https://actionaid.org/stories/2020/financing-education)) for education to the UNESCO standard of 20% for developing countries.
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| **Budget for increased allocation to the ministry of justice and ministry of education to review and revise the Education Act of 2011 to enshrine education financing benchmarks into the Education Act** | The main legislation on education is the Education Act 2011, which identifies each person’s rights to early childhood education, basic education and high school education. Since 2006, government education policies have focused on access, but there is a recent shift towards improving quality of education in addition to addressing accessibility issues. | * Budget for increased allocation to the ministry of justice and ministry of education to review and revise the Education Act of 2011 to enshrine education financing benchmarks into the Education Act
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|   **STRATEGIC DEVELOPMENT AREA THREE: ENVIRONMENTAL SUSTAINABILITY**  |
| **PROPOSAL**  | **CURRENT STATUS**  |  **JUSTIFICATION**  |
| **Low budgetary allocation towards Environmental Protection** | Increase the allocation at least 4% | More climate change programs and projects in the country. |
| **Actualization of the Climate Change Act** | Allocate a budget towards actualizing the Bill into Law as it has been long overdue | The Law will facilitate the setup of a Climate Change Fund which will be a mode of resource mobilization towards climate financing |
|  **STRATEGIC DEVELOPMENT AREA FOUR: GOOD GOVERNANCE ENVIRONMENT** |
| **PROPOSAL**  | **CURRENT STATUS**  |  **JUSTIFICATION**  |
| **Provide financing towards the Constitution reform process**  | Zambia is planning to undertake a comprehensive constitutional reform  |  There is need for the country to embark on a comprehensive constitution reform process which needs to be done before the 2026 General Elections. This will ensure that the Constitution reform process is done transparently without political influence.  |