



# Economics Association of Zambia - EAZ

## 2019 Budget Analysis: Is Zambia Ready for Sales Tax?

### Sales Tax vs Value Added Tax - The Best Way Forward



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# Background to VAT



#### Introduction

- ❑ Value Added Tax (VAT) was introduced in 1995 as replacement of Sales Tax.

#### What is Value Added Tax

- ❑ VAT may be defined as a consumption-based tax that is levied in the supply chain at each point where value is added to a good or service.

#### What is VAT levied on

- ❑ The supply of goods in Zambia
- ❑ The supply of services in Zambia and
- ❑ On importation of taxable goods and services into Zambia.

#### Who Pays VAT

- ❑ By its nature, VAT is incurred by the final person in the chain of supply who is **not** registered for VAT. Persons registered for VAT will claim back, through the return, the input VAT incurred in the course of their business, and remit to Zambia Revenue Authority (ZRA), the Output VAT collected in excess of their input VAT. Therefore, registered suppliers **do not pay VAT**.

### VAT

#### Rates of Taxable Supplies

- ❑ **STANDARD RATED SUPPLIES:** These are supplies that attract VAT at the prescribed standard rate 16 %.
- ❑ **ZERO RATED SUPPLIES:** These are supplies that attract VAT at 0%.
- ❑ **EXEMPT SUPPLIES:** These are supplies that do not attract any VAT at all.

#### Imported Goods

- VAT is chargeable on all importations of taxable items whether by private persons or by businesses (and whether or not they are registered for VAT).

#### Export of Goods

- Subject to certain conditions, the export of taxable goods is zero-rated for VAT. To zero rate at exportation, the goods must be supplied (i.e. sold) direct to a business abroad by or on behalf of the supplier. To qualify for zero rating' the proof of exportation documentation should to be produced:



# Advantages of VAT

## Forward to VAT Guide



# Advantages of VAT

## Forward to VAT Liability Guide

- Invoice Based, Uniform, Uncomplicated, less collection weakness;
- Self policing, less distortion of trade, increased tax compliance;
- Promotes strong home manufacturing industry and competitive export prices;
- Input credit mechanism allows tax credit on purchases and taxable expenses;
- Fairer in that it avoids tax on tax characteristic of most general sales tax;
- Wider tax base shared across all sectors of the business community



# Challenges with VAT





# Challenges with VAT in Zambia

**Huge VAT Refunds coupled with low compliance**

- Very low domestic VAT compliance levels especially in the retail sector;
- Slow growth of manufacturing industry following COMESA and SADC protocols;
- Huge VAT refunds arising from zero rating of exports and negative trade balance;
- Refunds have provided cheap source of financing for central Government; impact of exchange losses;
- VAT Rule 18 and its unintended consequences;
- Withholding VAT and its impact on local businesses



# Measures to resolve VAT Challenges



**WHVAT like  
VAT Rule  
18 have  
had  
negative  
impact on  
business**

- Limitation of period in which VAT input claims can be made from 24 months to 3 months;
- Limitation of input VAT claims by tinkering with the Exempt schedule and restrictions on input VAT claims
- Abolishment of VAT number and replacement with Tax Payer Identification Number to broaden compliance;
- Fiscal Cash Register, CCTV Camera's and other initiatives
- Introduction of withholding VAT



# Sales Tax



## Sales Tax

### Introduction

- ❑ Sales tax is a consumption tax levied on goods and services purchased at the retail level, paid by the consumer and submitted by the retailer to the governing tax authority.
- ❑ Traditionally, sales tax applied only when goods, not services, were sold. This has been changing and now many service providers need to collect and pay over sales tax.

### Why it matters

- ❑ The imposition of this tax affects the consumer directly on each purchase for nonexempt goods and services
- ❑ Business will likely not be required to claim input VAT. Sales tax may increase the cost of doing business for companies that will not be exempted. This is likely going to trigger an increase in the price of commodities and services.
- ❑ Sales tax will not apply to exempt institutions that will be approved.

### Advantages

- ❑ Simple for taxpayers e.g. application of rate to the sale value;
- ❑ Reduced administration costs for the ZRA/ government.

**NOTE: Guidance on sales tax is yet to be provided by ZRA and Ministry of Finance.**



# Comparison of Sales Tax to VAT



VAT  
-vs-  
Sales Tax

COMPARISON	SALES TAX	VAT
<b>Meaning</b>	Tax charged on the total value of the commodity when the sale takes place	VAT is a tax charged at each level of the production and distribution chain whenever value is added to the product
<b>Nature</b>	Single point tax	Multi point tax
<b>Levied on</b>	Total value	Value added
<b>Account maintenance</b>	Requires less effort because it is simple and easy to calculate	Proper accounts should be maintained as it is comprehensive and complex to calculate.
<b>Tax burden</b>	Falls on the consumer	Rationalized
<b>Input tax credit</b>	Unavailable	Available
<b>Impact on Business</b>	<ul style="list-style-type: none"> <li>• Tax on tax</li> <li>• Increased cost</li> <li>• Negative on Manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>• No tax on tax</li> <li>• Lower costs</li> <li>• Encourages manufacturing</li> </ul>



# The Best Way Forward





**VAT remains the best indirect tax method that can promote investment, reduce costs of doing business and stimulate growth.**

Zambia has pioneered tax systems in Africa. A well researched sales tax could lead the way for other countries. Sales tax will seal leakage through VAT refunds and improve indirect tax contribution in the short term but will have a negative impact on domestic revenues and growth of the economy in the long term.

Consider:

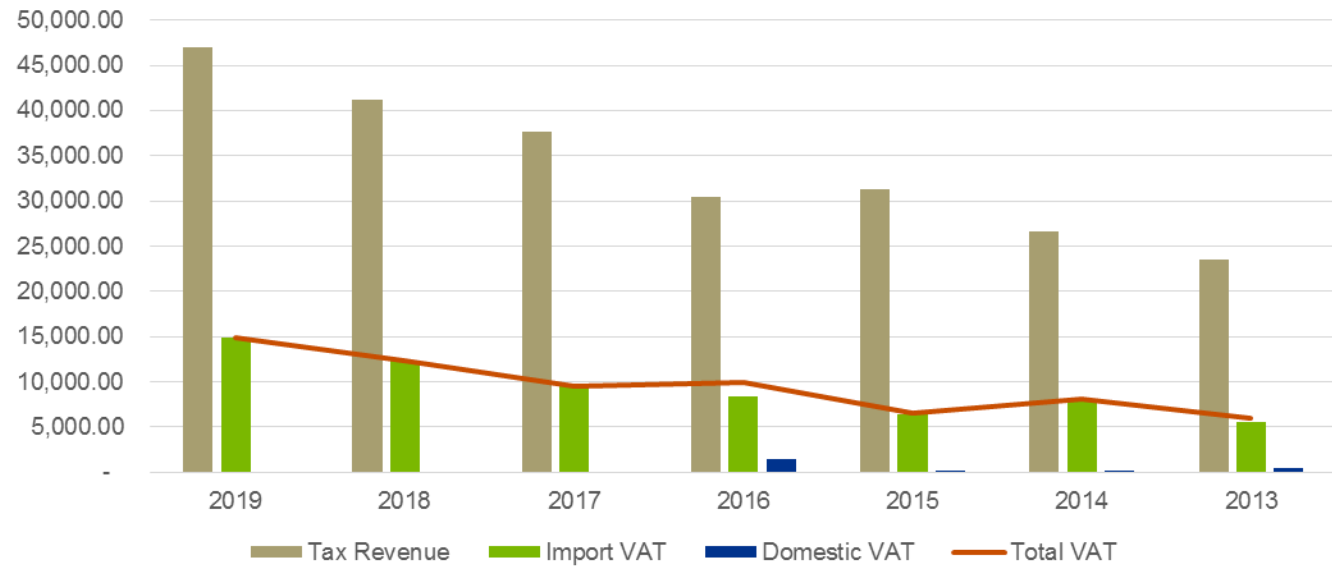
- Challenges of systems change during financial year. January 1, 2020 would be ideal;
- Increased cost of doing business across all sectors. This will lead to reduced corporate tax whose impact may not have been considered;
- Sales tax will addresses one of the two main challenges with VAT; refunds. However, low tax compliance which is estimated at 16% remains a challenge; and
- Recent measures among them TPIN, CCTV, Fiscal Cash registers need to be implemented to increase compliance and broaden tax base.



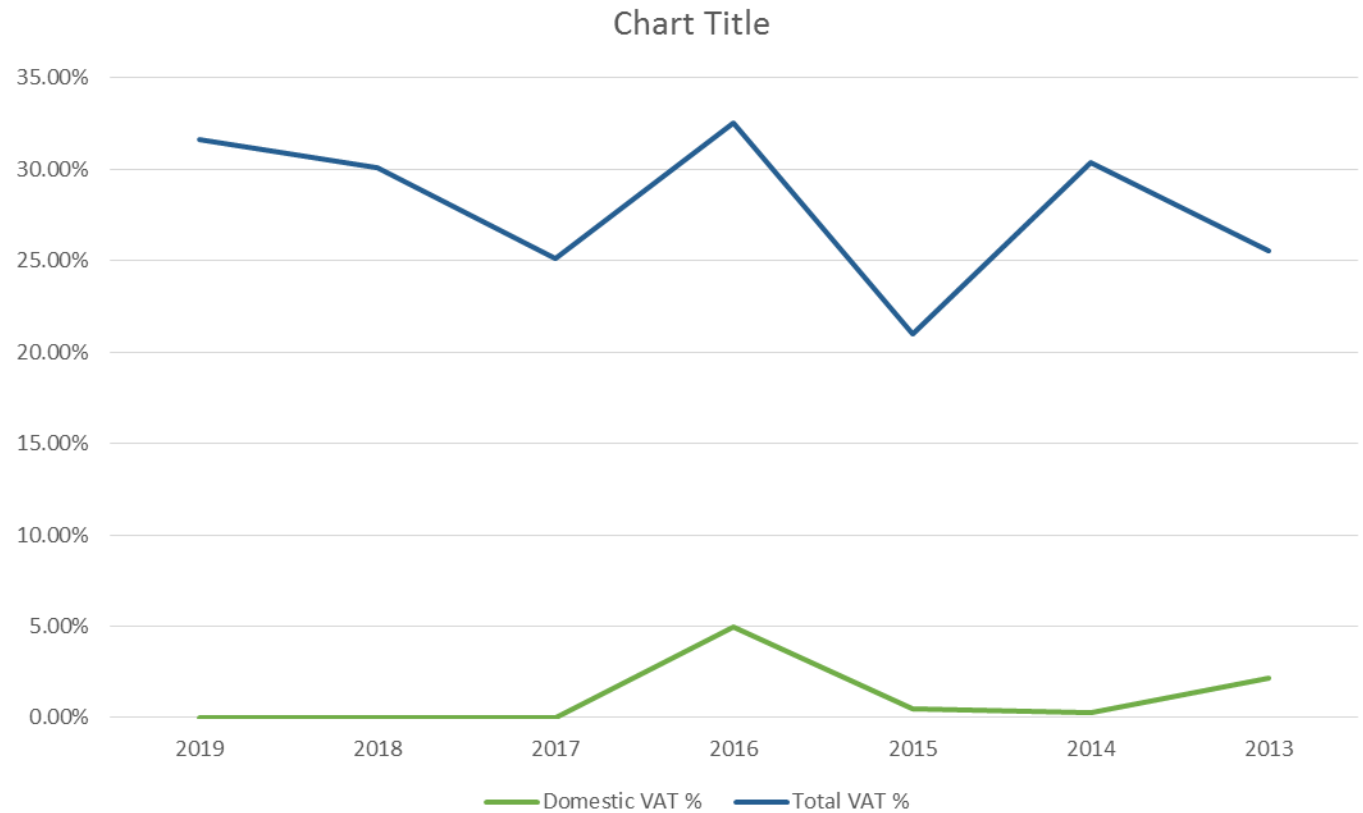
# Graphs



## VAT Contribution to Tax Revenues

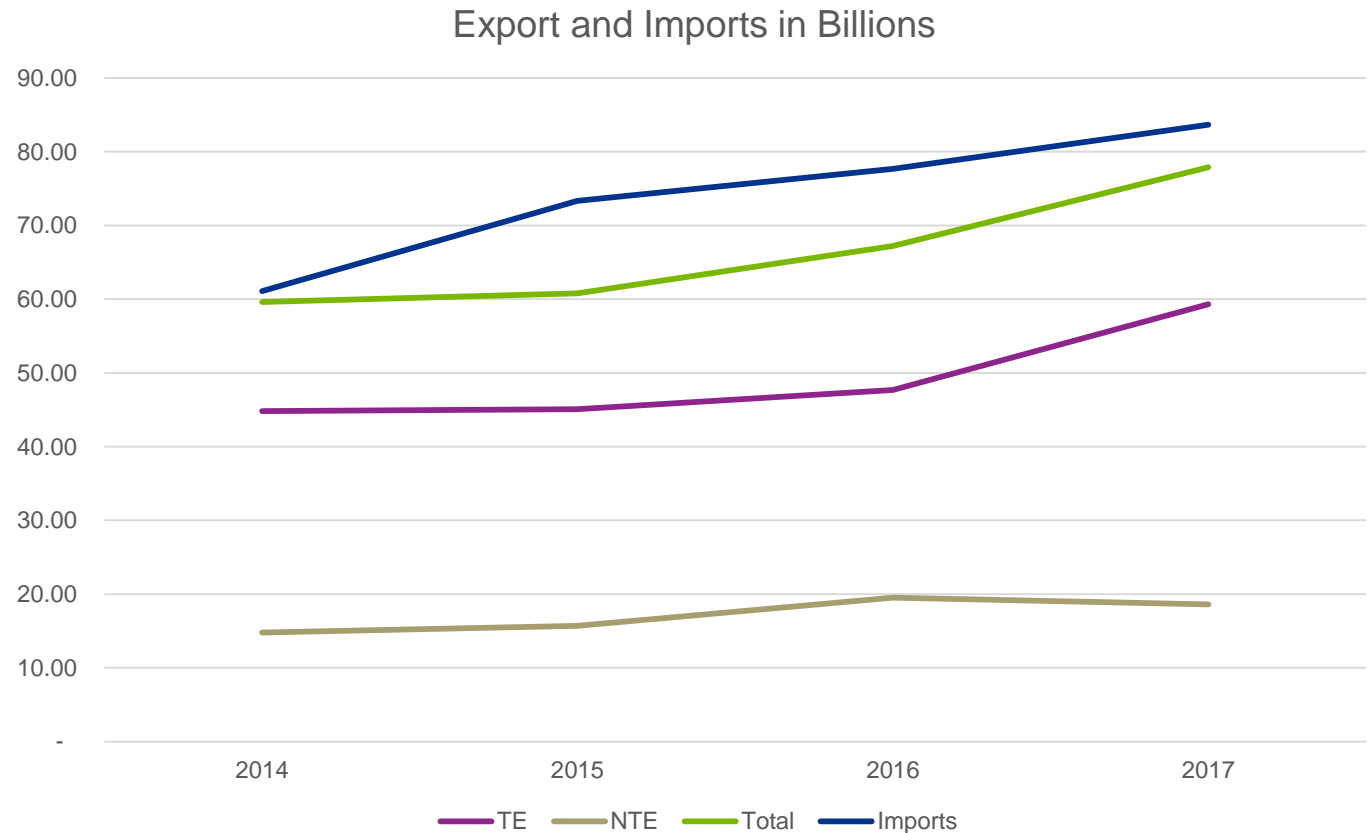


## Percentage Contribution of VAT to Total Revenues



# Exports in Billions of Kwacha

All exports of goods are zero rated and lead to VAT refunds.





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