Zambia Annual Business Conference

VAT to Sales Tax: Implications on Business

Michael Phiri

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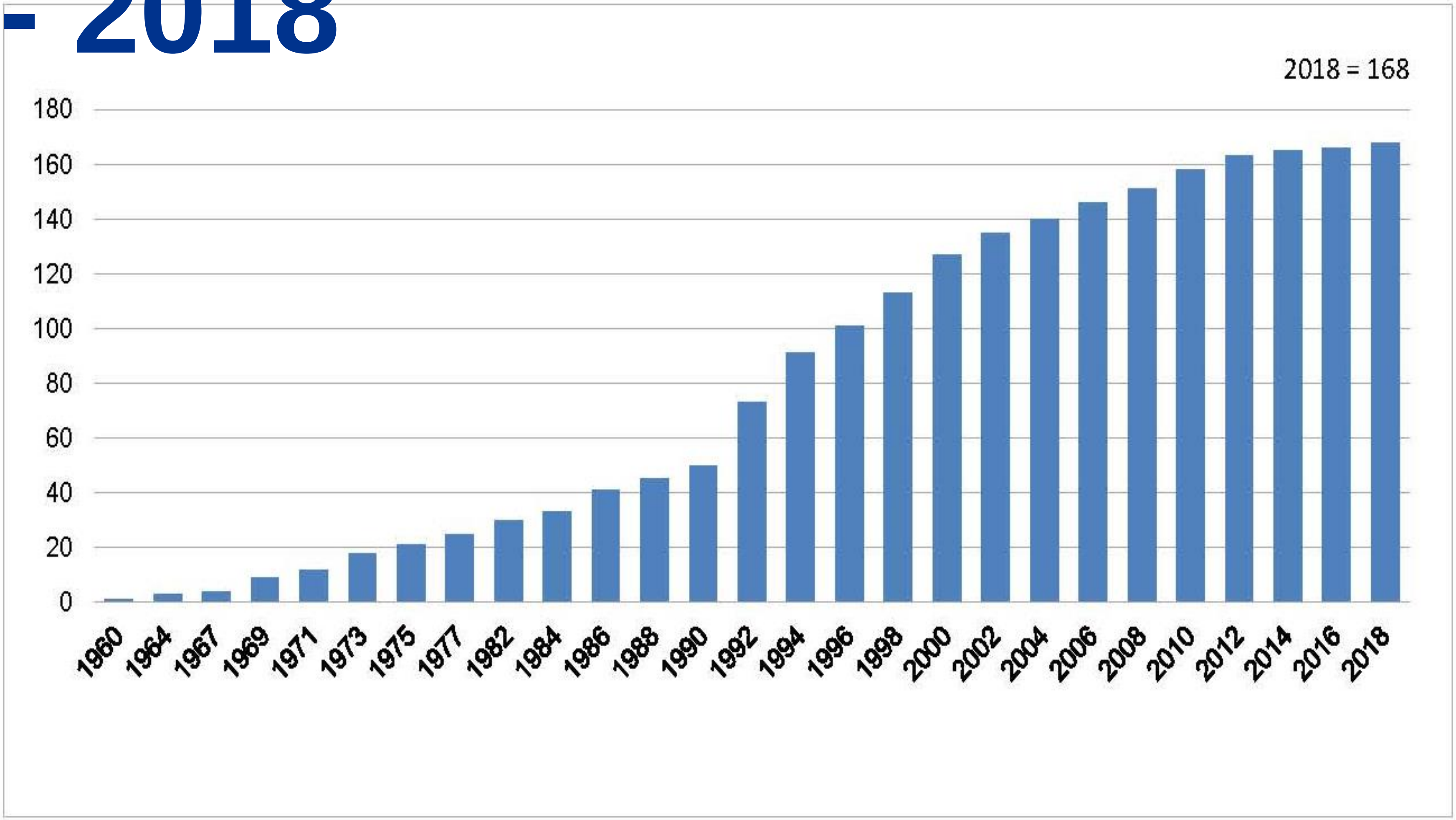
Road Map

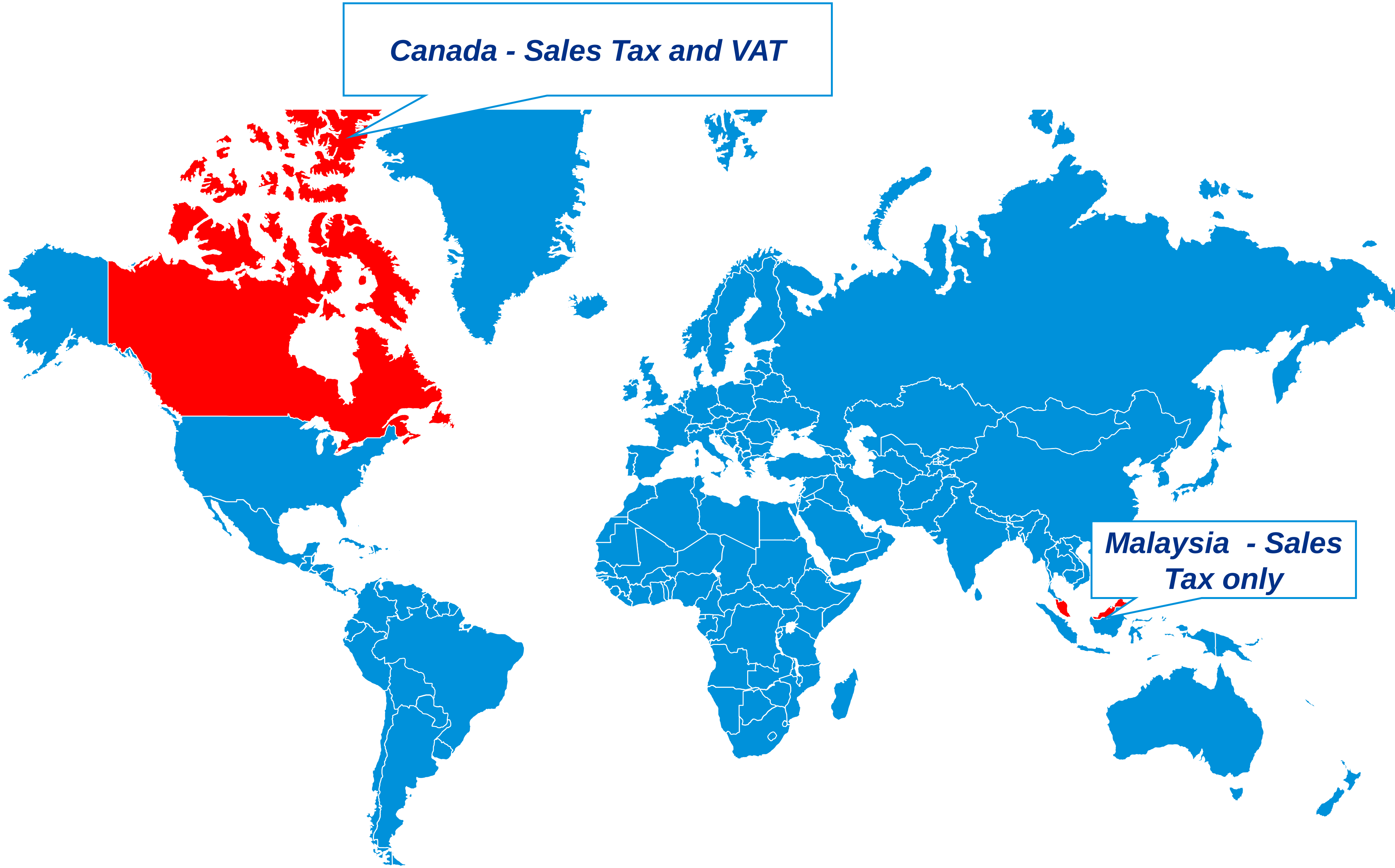
- ✓ Global VAT and Sales tax trends
- ✓ Africa VAT and Sales tax trends
- ✓ How Zambia’s VAT has faired
- ✓ Why the move from VAT to Sales tax?
- ✓ The sales tax impact on business
- ✓ Canada and Malaysia examples

Global Trends

Countries with VAT 1960 - 2018

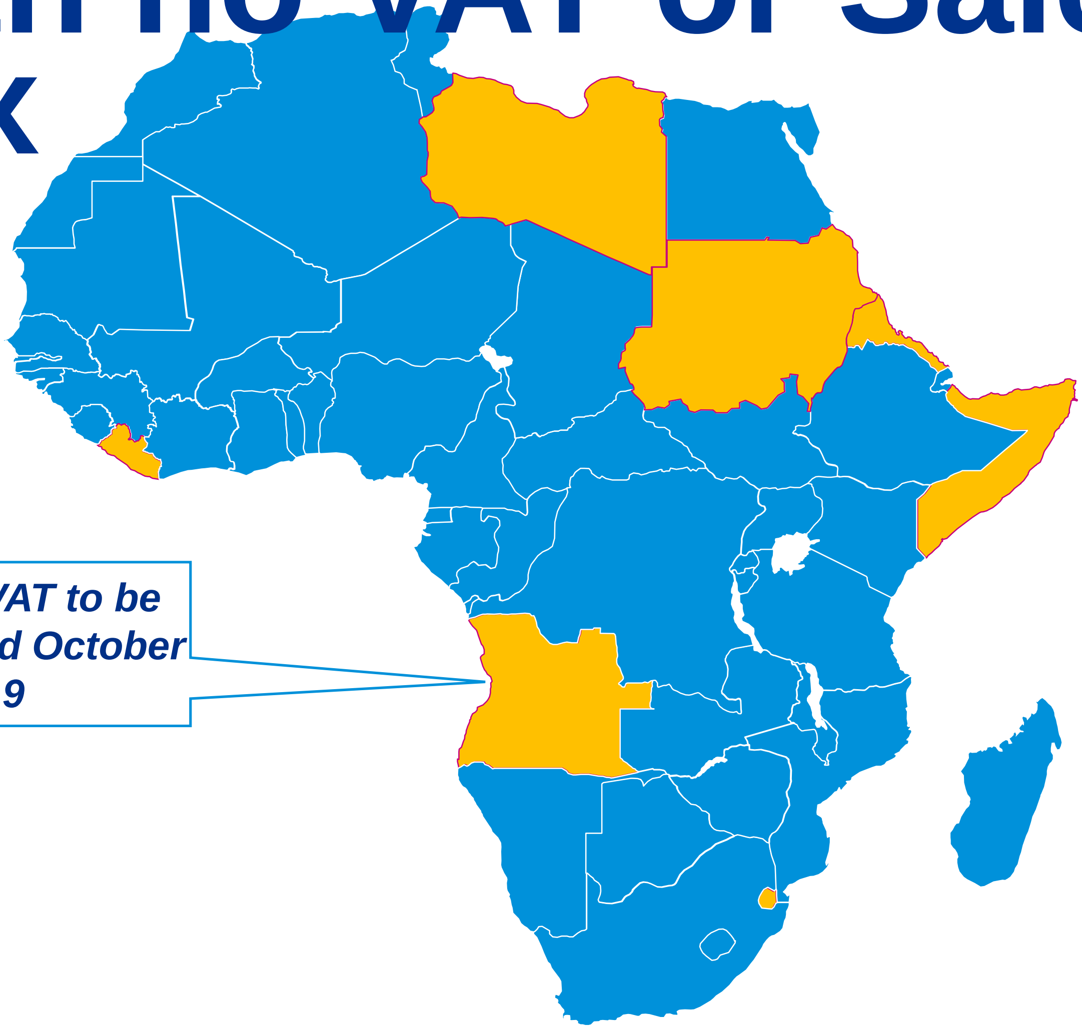


Source: (Fabiola Annacondia IBFD, 2018[2])


Canada - Sales Tax and VAT
Malaysia - Sales Tax only

Africa Trends

Countries in Africa with no VAT or Sales Tax



Angola - VAT to be implemented October 2019

Key VAT/Sales Tax trends

Country	Year of implementation	Current standard VAT rate (%)
Algeria	1992	17
Benin	1991	18
Botswana	2002	12
Burkino Faso	1993	18
Burundi	2009	18
Cameroon	1999	19.25
Cape Verde	2004	15
Central African Republic	2001	19
Chad	2000	18
Democratic Republic of Congo	2012	16
Ethiopia	2003	15
Egypt	1991	10
Equatorial Guinea	2004	15
Gabon	1995	18
Gambia	2013	40
Ghana	1998	12.5
Guinea	1996	18
Guinea-Bissau	2001	15
Ivory Coast	1960	18
Kenya	1990	16
Lesotho	2003	14
Madagascar	1994	20

Country	Year of implementation	Current standard VAT rate (%)
Malawi	2002	16.5
Mali	1991	18
Mauritania	1995	14
Mauritius	1998	15
Morocco	1986	20
Mozambique	2008	17
Namibia	2000	15
Niger	1994	19
Nigeria	1993	5
Republic of Congo	2012	16
Rwanda	2001	18
Senegal	2001	18
Seychelles	2012	15
Sierra Leone	2009	15
South Africa	1991	15
Sudan	2000	17
Tanzania	1998	17
Togo	1995	18
Tunisia	1988	18
Uganda	1996	18
Zambia	1995	16
Zimbabwe	2004	15

Key VAT/Sales Tax trends

168 out of **195 countries** in the world currently **maintain VAT Regimes**

2 countries exclusively maintain **Sales Tax Regime.**

44 out of 54 African States maintain VAT Regimes.

10 Countries in Africa maintain neither VAT or Sales Tax Regimes

All OECD member countries **except United States of America** maintain **VAT Regime**

All EU member countries maintain **VAT Regime.**

Key VAT/Sales Tax trends in OECD countries

- VAT revenues are stabilising at a high level in OECD countries at 6.8% of GDP and at 20.2% of total tax revenue on average (excl. the United States which do not have a VAT system).

- Standard VAT rates in the OECD reached a record level of 19.3% on average in 2015 and have remained stable since. Ten OECD countries now have a standard VAT rate above 22%, against only four in 2008. The average standard rate of the 23 OECD countries that are members of the European Union (21.8%) is significantly above the OECD average.

- Countries are increasingly implementing or considering base broadening measures to raise additional revenue from VAT, notably by increasing reduced VAT rates and/or narrowing their scope in line with OECD recommendations, although movements in opposite direction are also observed.

Key VAT/Sales Tax trends in OECD countries

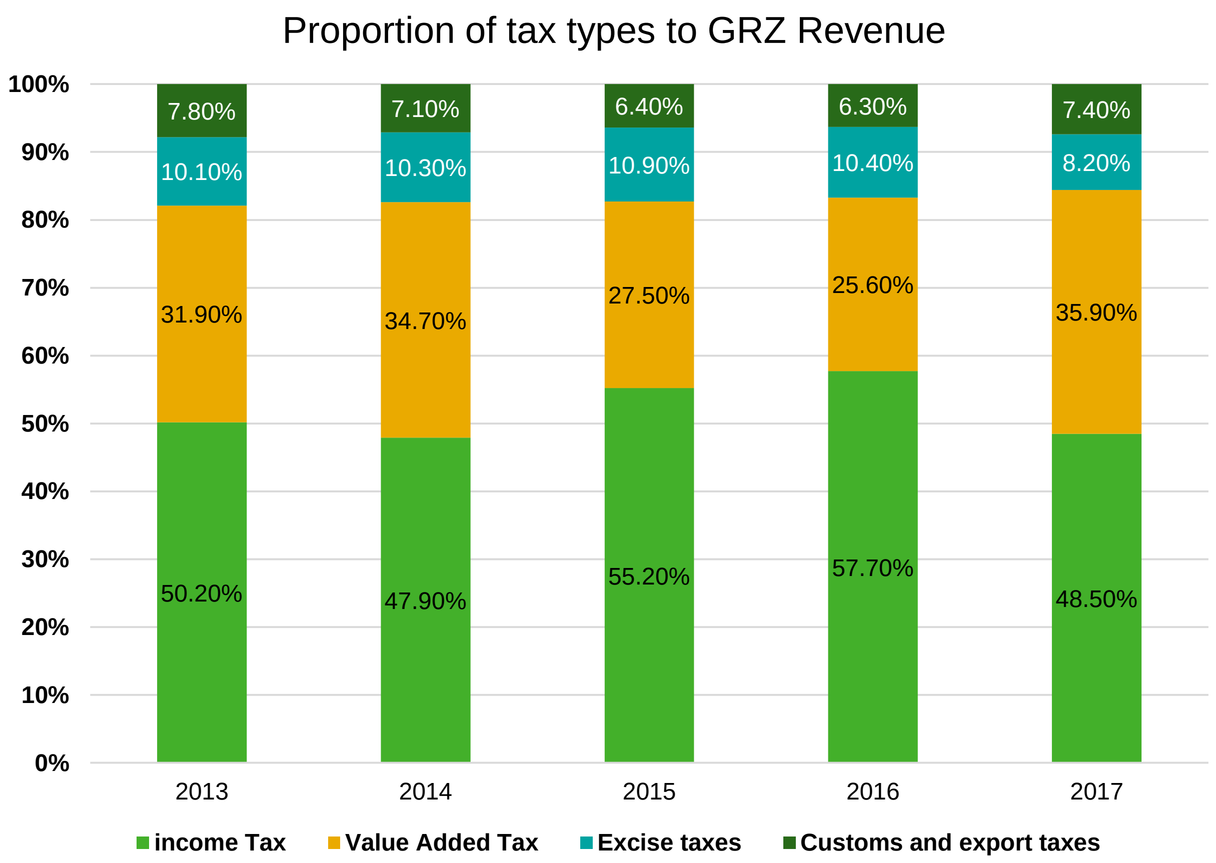
- Many countries are considering or have already announced and/or implemented reform to enlist online marketplaces and other digital platforms in the collection of VAT on e-commerce. This can include the requirement for these platforms to collect and remit the VAT on behalf of online vendors and/or enhanced reporting and information sharing requirements. The OECD is developing work to support these reforms.

- Countries are increasingly implementing measures to enhance compliance and reduce the vulnerability of VAT regimes to fraud. This includes alternative collection mechanisms such as domestic reverse charge and split-payments in sectors that are particularly vulnerable to fraud; real-time VAT invoice reporting and electronic data transmission requirements; and enhancing the international administrative cooperation in the area of VAT.

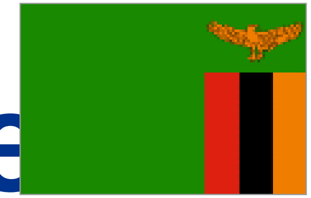
- Excise duties are increasingly used to influence consumer behaviour. For example, the total tax burden on cigarettes is now above 50% of the consumer price in almost all OECD countries and has reached 80% or more in 8 countries.

VAT performance in Zambia

Zambia – Value Added



Zambia – Value Added Tax



	2019 Budget K'000	% of GDP
Gross Domestic Product	**300,169,200**	**100%**
Total Revenue	**55,844,981**	**18.6%**
Tax Revenue	**47,472,283**	**15.8%**
Income Tax	23,291,352	7.8%
VAT	15,654,744	5.2%
Other taxes and levies	8,532,187	2.8%
Non tax revenue	**8,372,697**	**2.8%**

Advantages of VAT

- 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

Disadvantages of VAT

- 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

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.

Sales Tax

Advantages

- Simple for taxpayers to administer as the sales tax rate will apply to the sale value;
- Reduced administration costs for the ZRA / government as sales tax does not have input claims mechanism;
- Eliminates the refunds challenges that have grown from an average K800 million per month to K1.4 billion per month.
- Anticipated Increase in Government Revenues as a result of not making refunds;
- It will encourage manufacturing through exemptions on selected imported goods for the manufacturing sector.
- Essential foodstuff and goods are likely to be exempted from sales tax which will lessen the social impact of sales tax

Sales Tax

Disadvantages

- ❑Cascading effect - If the retailer does impose a tax on business purchases, the tax “cascades,” building up over successive stages of production, which raises and distorts prices depending on the number of stages of production.
- ❑ Policing - Lack of cross reporting (debit and credit trail); the government has no record of the transaction and the retailer responsible for sending the check to the government for the tax it collects knows this.
- ❑ Business to Business transactions are exempted, the retailer can’t always tell whether the buyer is a consumer who should pay the tax or a business which should not—and has little incentive to find out.
- ❑When there is evasion at the retail level, tax revenues are lost entirely with a sales tax.

Sales Tax vs VAT

COMPARISON	SALES TAX	VAT
Meaning	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
Nature	Single point tax	Multi point tax
Levied on	Total value	Value added
Account maintenance	Requires less effort because it is simple and easy to calculate	Proper accounts should be maintained as it is comprehensive and complex to calculate.
Tax burden	Falls on the consumer	Rationalized
Input tax credit	Unavailable	Available
Impact on Business	• Tax on tax • Increased cost • Negative on Manufacturing	• No tax on tax • Lower costs • Encourages manufacturing

VAT to Sales Tax: Impact on businesses

Positive impact on business

- Some local businesses will gain from the reduced domestic sales tax rate of 9% (likely to be lower) especially in the services industry;

- Cost of compliance could reduce in that sales tax is not complicated to compute and the sales tax return is likely to be less complicated than the VAT return.

- The refund challenge experienced by some companies will be eliminated. Instead, companies will b allowed to claim the sales tax cost as an expense.

Negative impact on business

- ❑ Potential for Shrinking the value chain which could lead to some businesses being excluded from the value chain and loss of employment;

- ❑ Cascading effect of tax across the value chain which will inevitably lead to an increase in the cost of doing business.

- ❑ Lack of self policing could result in low levels of compliance and as such lower revenues for the government;

Solutions to negative effects of Sales Tax

- Distributors who are likely to be impacted by the shrinking value chain should consider acting as agents as opposed to traditional distributors;

- The sales tax rate is likely to reduce from 9% to cushion the impact of the cascade. The sales tax registration threshold dropped from K800,000 to K500,000 to broaden tax base. While Government can enact laws, it cannot control company behaviors. As good corporate citizens, avoid shrinking value chain.

- Collaborate with Zambia Revenue Authority in combating smuggling through measures that cigarette stamps, Kazuma example.

Sales Tax in Canada and Malaysia

Canada

Goods and Services Tax ("GST")

GST applies to most goods and services across Canada, including real property and intangible property.

History

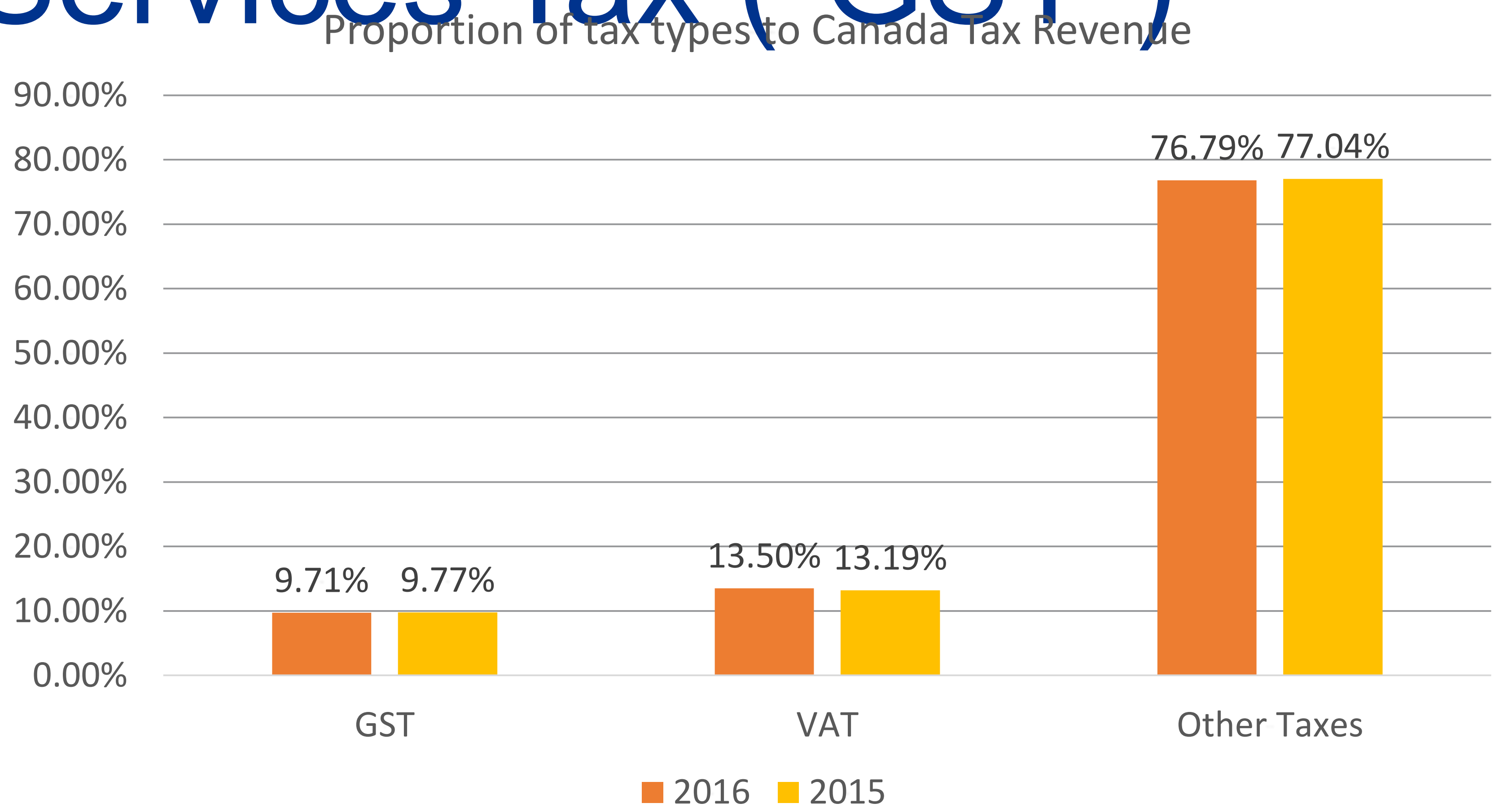
Introduced on January 1, 1991

From January 1, 1991 to June 30, 2006:	7%
From July 1, 2006 to December 31, 2007:	6%
Since January 1, 2008:	5%

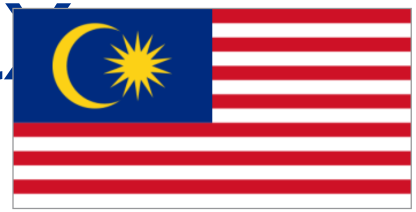
Canada

	Does GST apply?	Can the supplier of the supply claim refund for GST paid by supplier on related costs?
Taxable supply	Yes, 5%	Yes
Zero-rated supply	Yes, 0%	Yes
Exempt supply	No	No

Canada – Goods and Services Tax (“GST”)

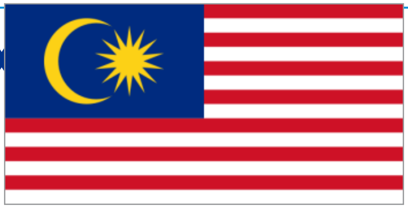


Malaysia – Sales Tax



Scope	Taxable goods manufactured in Malaysia by a taxable person and sold, used or disposed by him
	Taxable goods imported into Malaysia
Rate	5%, 10% and specific rate (petroleum)
Registration Threshold	RM500,000
	Some GST registered businesses will be registered automatically
Exemption	Goods exempted from Sales Tax (e.g. live animals, vegetables, fruits) - a proposed list of goods has been issued by the RMCD
	Person exempted from Sales Tax (e.g. Federal or State Government, registered manufactures on acquisition of raw materials)
	Exemption from Registration (e.g. tailors, jewelers)

Malaysia - Sales Tax

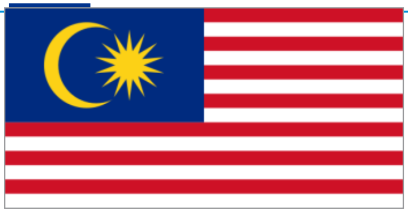


Special Rules	Designated areas
	Special areas (free zones, licensed warehouse, licensed manufacturing warehouse and Joint Development Area)
Accounting for Sales Tax	Accrual basis
	Every 2 months (default taxable period)

Malaysia - Services

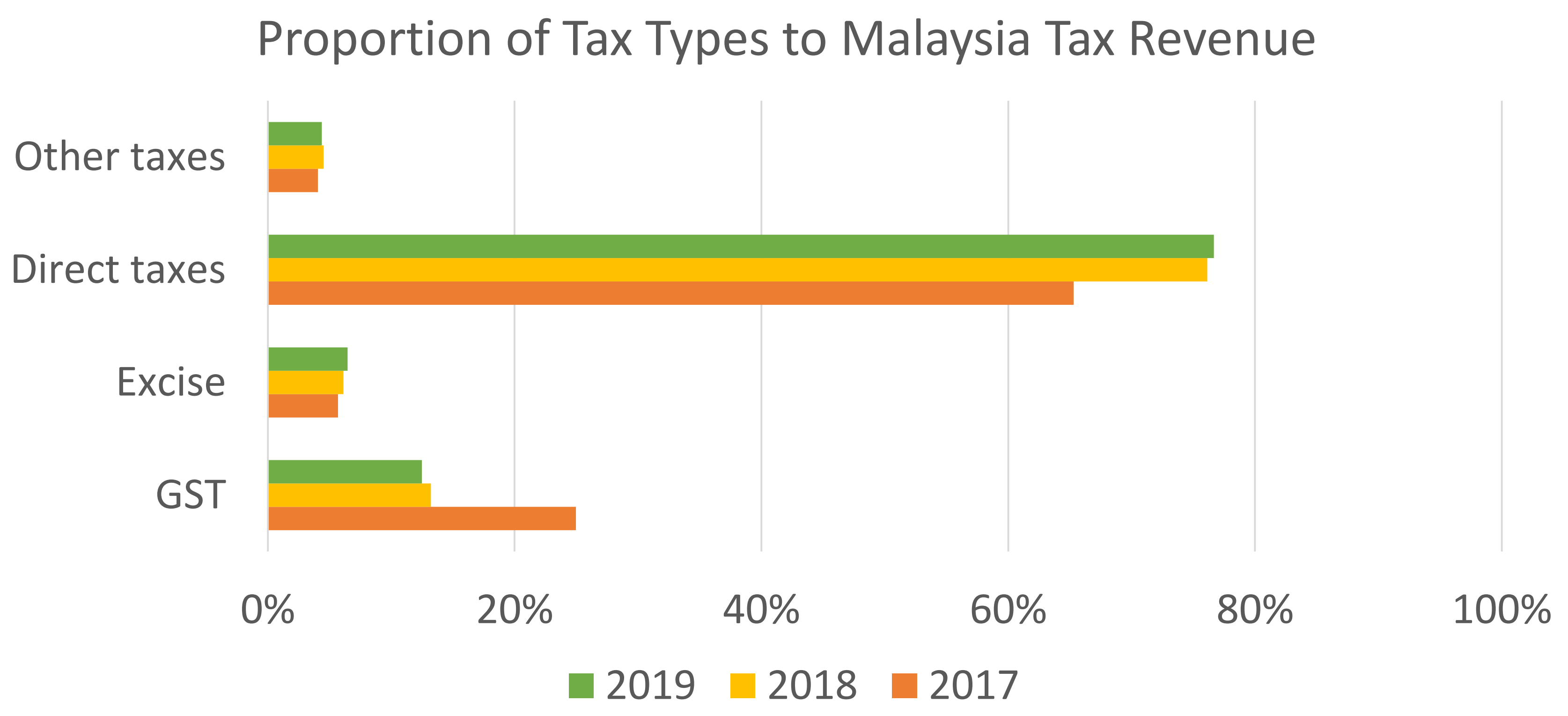
Scope	Any provision of taxable services made in the course or furtherance of any business by a taxable person in Malaysia (e.g. hotel, insurance, accounting, parking, domestic flights except Rural Air Services)
Rate	6% and specific rate of RM25 for credit card/ charge card
Registration Threshold	RM500,000
	Some GST registered businesses will be registered automatically

Malaysia - Services



Exemption	Not applicable on imported services and exported services
Special Rules	Designated areas (Labuan, Langkawi and Tioman)
	Special areas (free zones, licensed warehouse, licensed manufacturing warehouse and Joint Development Area)
Accounting for Service Tax	Payment basis
	Every 2 months (default taxable period)

Malaysia– Sales and Services Tax (“SST”)



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