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Zambia Institute of Chartered Accountants

Comments on the Budget Estimates for the 2025 Fiscal Year

1. INTRODUCTION

The Zambia Institute of Chartered Accountants is a professional membership body whose function among others is to advise government on matters of economic and national development. As requested, the Institute wishes to submit its overall comments on the 2025 National Budget presented to the Parliament on Friday, 27th September 2024 by the Minister of Finance, *Hon. Dr. Situmbeko Musokotwane*, *MP*, under the theme ***"Building resilience for inclusive growth and improved livelihoods"***. As directed by the Clerk of the National Assembly, the thrust of our comments is on the ramifications of the macroeconomic and fiscal framework of the 2025 Budget. What we are presenting are our views on the proposed changes to the Tax system and commentary on measures put in place in handling the debt stock in the medium to long term.

2. OVERVIEW OF THE GLOBAL AND DOMESTIC ECONOMIES

2.1. Global Economy

The global economy is expected to decline to 3.2% in 2024 from 3.3% in 2023, owing to the subdued growth in the major advanced economies. In 2023, Zambia outperformed both regional and global growth levels. However, this growth is expected to contract in 2024 before rebounding in 2025. The region has continued to remain vulnerable to external shocks, climate conditions and political instability. These factors, coupled with commodity price volatility, are likely to influence inflation movements.

2.2 Zambian economy

The impact of climate change on energy and agricultural sectors has led to significant effects of the overall economic growth with projections for 2024 growth showing a slowdown to 2.3% compared to 5.4% recorded in 2023. The drought-induced power deficit negatively impacted industrial productivity with the Purchasers Managers' Index ranging below the 50 mark since the beginning of 2024.The agricultural sector too has suffered from inconsistent rainfall patterns, as maize production reduced from 3.3MT during the 2022/23 farming season to 1.5MT in the 2023/24 farming season.

3. Budget objectives;

a) Attain real GDP growth of 6.6%
b) Lower inflation to the medium-term target of 6-8%
c) Maintain International Reserves at 3.0 months of import cover
d) Increase domestic Revenue to 21.3% of GDP
e) Reduce the fiscal deficit to 3.1% of GDP

4. **MACRO ECONOMIC TARGETS 2021-2025**

The Minister has set out the following broad macroeconomic targets for the year 2025

	2021*	2022*	2023*	2024**	2025***
Real GDP Growth (%)	4.6*	5.2*	5.4*	2.3**	6.6***
CPI Inflation (end of period) %	22.1*	9.9*	12*	15.6*	6-8***
Fiscal Deficit (% of GDP)	9.0*	8.1*	5.7*	6.4**	3.1***
International re-serve import cover (months)	5.5*	3.5*	3.2*	4.3*	>3.0***
USD Exchange Rate	16.37*	15.79*	20.05*	25.98*	-

**Actual **Projected ***Forecast*
Source: Bank of Zambia Annual Reports, Ministry of Finance Annual reports & 2025 Budget Speech

4.1. OUR COMMENTS ON SPECIFIC MACROECONOMIC TARGETS

a) Attain a real GDP growth rate of at least 6.6%

Comments

In 2024, the economy is projected to grow by 2.3% against the 2024 Budget estimate of 4.8% with the slow down attributed to the impact of drought which has significantly reduced agriculture production and electricity generation. Hydroelectricity generation challenges are expected to persist in the short term even with good rainfall and, therefore, will have an impact on the economic recovery of the country. The 6.6% target of real GDP growth in 2025 which is higher than the 2024 target of 4.8% may, therefore, not be attained. However, with favourable distribution of farmer inputs under the Farmer Input Supply Programme (FISP), and good rainfall patterns and weather conditions for the 2024/2025 season could contribute to the recovery of the agriculture sector but may not be sufficient to attain the objective of achieving the target real GDP growth rate.

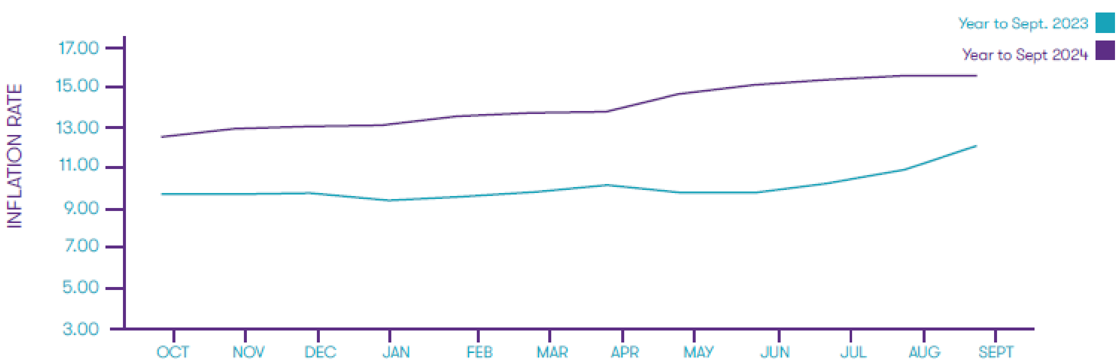
Source: Bank of Zambia, Ministry of Finance

b) Reduce the inflation to within the target band of 6 – 8% in – 2025

Comments

In the first half 2024, inflation, has persistently been high averaging above 14% which is way above the target band of 6-8%. In particular, annual inflation for September 2024 rose to 15.6% suggesting that on average, prices of goods and services increased by 15.6% between September 2023 and September 2024. This has mainly been on account of increased food prices. Our expectation is that overall annual inflation in 2025 will be in double digits and thus above the upper bound of the 6 – 8 % target band but will drift to within the bound target in the medium-term. Elevated domestic food prices, persistently high global fuel prices and tight global financial conditions will be the major drivers of inflation outlook in 2025. These factors as well as higher energy prices due to the prolonged Russia-Ukraine war remain key upside risks and are expected to persist in 2025.

GRAPH 1: INFLATION



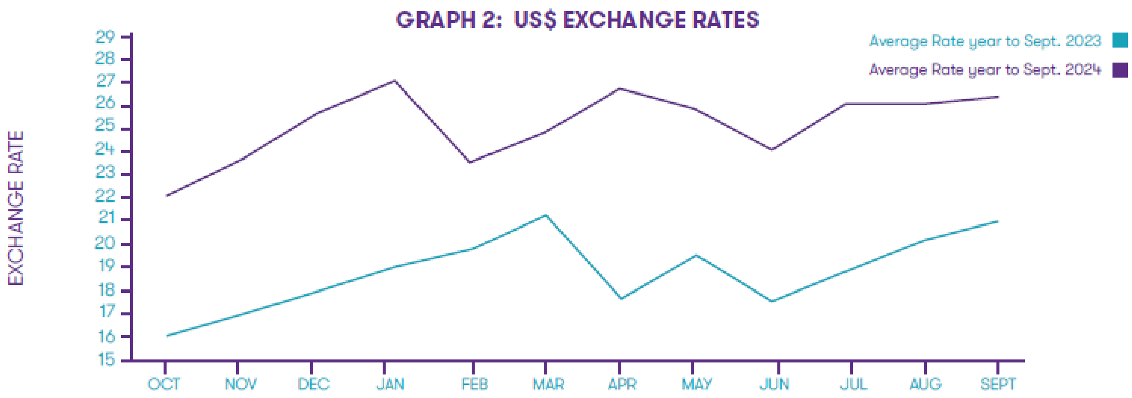
Source: Central Statistical Office

c) Exchange Rates

Comments

The Kwacha depreciated by 2.8% against the US dollar to ZMW25.98 per US dollar between January and August 2024. The depreciation of the Zambian Kwacha between January and August 2024 was primarily driven by a strong demand for US dollars, coupled with reduced foreign exchange earnings from the mining and other sectors.

The immerse pressure on the Kwacha in recent months is as a result of strong demand of foreign currency for the importation of critical commodities such as agricultural, electricity and petroleum products.



Source: Bank of Zambia

d) Maintain international reserves to at least 3 months of import cover

Comments

The country's international reserves was equivalent to 4.3 months of import cover at end-June 2024 at US$3.9 billion from US$2.9 billion (equivalent to 3.2 months of import cover) at end-August 2023. This is on target of above 3 months of import cover for 2024. The objective of maintaining international reserves of above 3.0 months of import cover is likely to be met in 2025 particularly that the country is on an International Monetary Fund Extended Credit Facility arrangement.

e) Increase domestic revenue to at least 21.3% of GDP

Comments

In 2024, revenues and grants are estimated to close the year at ZMW148.1 billion which is 2.5% above the target of ZMW144.5 billion. The 2024 Budget deficit is now expected to be 6.4% of GDP compared to the initial projection of 4.8% of GDP on account of the realignment of the budget because of the drought.

However, in the first half of 2024, total collections of revenues and grants amounted to ZMW74.9 billion and were 1.2% below the target of ZMW75.8 billion. Tax revenue amounted to ZMW55.8 billion, non-tax revenues were ZMW17.4 billion while ZMW1.6 billion was received as Grants from cooperating partners. Specifically, tax revenue collection amounted to ZMW55.8 billion which was 4.7% below the target of ZMW58.6 billion. While non-tax revenue collections amounted to ZMW17.4 billion and were 11.6% above the target of ZMW15.6 billion. The higher outturn was mainly attributed to the receipt of a dividend from Bank of Zambia amounting to ZMW6.5 billion, exceptional revenue from ZANACO and forfeited funds amounting to ZMW1.5 billion. We agree with the reduced projections for domestic revenue collections in 2025 as we foresee slow economic recovery from drought devastation as well as volatile prices of commodities, alongside disruptions in supply chain risks persisting in the short to medium term.

f) Reduce fiscal deficit to 3.1% of GDP (2024: 4.8%)

Comments

In 2024, the target for budget deficit was at 4.8% of GDP and projections are that the year-end deficit is going to be above target at 6.4% of GDP. The higher budget deficit outturn is on account of the realignment of the budget because of the drought. We expect Government social expenditures to remain high so as to cushion the citizenry especially the vulnerable against the effects of drought and, therefore, the 2025 3.1% fiscal deficit target is likely not to be met.

g) **Limit net domestic borrowing to 1.9% of GDP (2024: no more than 2.5%)**

Comments

The stock of Treasury bills and Government bonds reduced by 3.1% to ZMW225.5 billion at end-June 2024 from ZMW232.6 billion at end-December 2023 and the reduction was attributed mostly to tight money market liquidity conditions which constrained commercial banks' lending to Government. The objective of limiting net domestic borrowing to 1.9% may be attainable although challenging in view of increased social spending. The attainment of the objective is conditional on bilateral, multilateral and other cooperating partners fulfilling their grants and foreign financing obligations as envisioned in the 2025 budget resource envelope

h) **Debt Position**

- In the first quarter, the stock of public debt increased, external debt increased by 0.8% to US$14.07 billion from US$13.96 billion at end December 2022 and domestic debt increased by 1.85 % to K213.38 billion.
- The total publicly guaranteed external debt stock stood at U$S1.43 billion at the end of June 2023 representing a decrease of 1.4% compared to US$1.45 billion at the end of December 2022.
- In addition, the stock of domestic debt (Government Securities) increased by 1.9% to K213.9 billion as at end of June 2023 from K210 billion as at end of December 2022. Longer dated Government Securities (Bonds) decreased by 0.22% to K169.66 billion from K170.03 billion as at end of December 2022. The stock of domestic debt instruments, Treasury Bills, increased by 10.63% to K44.22 billion from K39.97 billion as at end of December 2022.
- The stock of domestic arrears marginally increased by 0.2% to K77.8 billion as at end of June 2023 from K77.6 billion as at end of December 2022.
- Government continued to implement a standstill on debt service payments to non-multilateral creditors in the first half of 2023. External debt service payments amounted to US$90.26 million (US$60.51 million principal payments and US$29.75 million interest payment).
- Cumulative external debt service arrears increased by 15.2 % to US$4.70 billion (Principal US$3.4 billion, interest US$1.29 billion) at end of June 2023 from US$4.08 billion at end of December 2022.

Comments

From the review of the performance of the economy in 2023, it is evident that the Zambian economy has stabilized. Progress has been made in achieving some of the socio – economic targets made for the fiscal year as shown by a stable exchange rate of the domestic currency against major convertible currencies and subdued inflationary pressures. Progress has also been made in resolving the country’s debt crisis after reaching the restricting deal and this in future will bring in extra allocation for social and economic expenditure, beyond what the Minister presented for 2024.

4.2 Debt Management

- In June 2024, the Government successfully restructured its Eurobonds. The official announcement regarding the completion of the restructuring of USD 3 billion worth of Eurobonds was made by the Ministry of Finance on 12 June 2024. The restructured bonds were issued and are trading on the international market. The efforts towards servicing the restructured bonds are already in progress, with the first payment made in June this year.

- On the debt owed to the official creditors, the Government has reached an agreement with France on the terms of the bilateral agreement to implement the MoU signed regarding debt restructuring with its individual official creditors. The aim is to complete the formalities required for execution with the intention to use this agreement as a model for further negotiations with other creditors.

- With regards the debt restructuring with other commercial creditors, the stages of negotiations are as follows:

  i. **Paramount and Huawei Technologies** - Concluded negotiations and executed agreements.
  i. **Industrial and Commercial Bank of China and China Development Bank**- Agreements have been reached in principal amounting to a total of USD 1.5 billion. Both were subject to scrutiny by the International Monetary Fund ("IMF") and Official Creditor Committee for the Comparability of Treatment and successfully met the requirements and the next step is to finalise for execution.
  i. **Nedbank and ZTE Technologies** - Agreements reached in principal and making progress in finalising the agreements for execution.

  ii. **Other commercial creditors -** The Government is in active engagement, and these are at different stages of negotiations

Comments

Due to the successful restructuring, Government will be liable to a payment of USD 599 million in 2025 in comparison to the total debt payable that was expected- for 2025 amounting to USD 8 billion demonstrating a positive impact on the debt restructuring programme.

In the current budget, K37.3bn has been allocated to service domestic debt, whilst K16.7bn to external debt and K5.7bn to dismantling of arrears.

4.3 Factors that will influence the Macro economic objectives

The deterioration in the budget deficit, high debt stock and current account deficit in the past years have contributed to the depreciation of the Kwacha.

The country's economy is still heavily reliant on the mining operations for most of its economic output and accounts for 70% of Zambia's export of goods. However, the sector is dominantly led by a few major mining players and is highly susceptible to fluctuations in commodity prices and global economic conditions. We recognise the inherent risk of low global copper prices which can negatively impact our budget.

In our view other challenges that are expected to have adverse impact on the 2025 Budget are:

a) Volatility in foreign exchange rates and copper prices;
b) The rising cost in the energy and fuel;
c) Adverse effects of climate change
d) The cost of borrowing remains significantly high despite several interventions;

5 GENERAL COMMENT ON 2024 FISCAL MEASURE AND ALLOCATIONS

The increase in the 2025 Budget has been driven by the following Expenditure Allocations:

Description	**2025 Budget**	**2024 Budget**	**2023 Budget**	**2022 Budget**
	K'M	**K'M**	**K'M**	**K'M**
General Public Service	73,815	58,906	66,172	83,370
Local Govt Equalization Fund	1,449	1,449	1,339	1,339
Domestic Debt Payment	37,335	32,906	30,530	27,365
External Debt Interest Payment	16,664	6,012	18,234	51,315
Defense	10,321	9,922	8,117	7,634
Public Order and Safety	8,406	6,756	5,189	3,493
Economic Affairs	48,714	39,755	35,013	33,706
International Airports	-	-	-	1,037
Housing & Community Amenities	2,989	2,651	2,584	2,376
Health	23,167	20,906	17,395	13,912

Recreation & Culture	559	493	444	156
Education	31,493	27,355	23,189	18,073
Social Protection	16,161	9,672	8,128	6,294
Climate Change Resilience	1481	1,451	789	971
Water Supply and Sanitation	2,312	1,949	2,270	2,352

As a share of the total budget, there has been an increase in expenditure on general public services from 33.1% in 2024 to 34.0% in 2025. Out of the total General Public Services allocation of ZMW78.82 billion, ZMW37.3 billion is for domestic debt servicing, ZMW16.66 billion is for external debt servicing and ZMW5.67 billion is for dismantling domestic arrears bringing the total for debt servicing and dismantling of domestic arrears to ZMW 59.63 billion in 2025 from ZMW45.8 billion in 2024.

According to the Country's Public Sector Debt Summary Reports published by the Ministry of Finance and National Planning, Zambia's domestic arrears increased between December 2021 and September 2023, despite the government's efforts to dismantle arrears in line with its strategy. The stock of domestic arrears rose from US$2.82 billion at the end of 2021 to US$3.75 billion by June 2023. In Kwacha terms, arrears as of September 2023 stood at ZMW91.18 billion, marking a 17.53% increase from the ZMW77.58 billion recorded at the end of 2022.

A total of ZMW6.8 billion, the entire allocation provided for in the 2023 budget, was disbursed for the clearance of arrears. However, the continued rise in arrears is attributed to new accumulations and upward adjustments, particularly in the fuel and electricity sectors. These adjustments were mainly due to the depreciation of the Kwacha, which fell from an average rate of ZMW16.91/US$ in 2022 to ZMW20.77/US$ by September 2023, representing a 22.83% depreciation. Furthermore, the verification of new invoices related to fuel arrears contributed to the reported increase.

This situation reflects the challenges posed by the exchange rate fluctuations and increased debt burden particularly in the energy sector. It is likely that the allocation for domestic debt servicing, particularly domestic arrears may not be adequate leading to further accumulation and pressure on local suppliers to government who either have to discount invoices at very high interest or face significant liquidity challenges.

Clearly, there has been a substantial increase in resources allocated to debt servicing and dismantling of arrears in the 2025 budget from a total of ZMW45.8 billion in 2024 to a total of ZMW59.63 billion in 2025 representing a 30.2% increase. The increase has seen foreign debt servicing being allocated ZMW16.66 billion in 2025 as compared to ZMW6.0 billion in 2024 showing an increase in external debt interest and principal payments following the debt restructuring agreement reached by the Zambian Government and external bilateral debtors and the eminent agreement on the other portion of the external debt to be reached between the Zambian Government and the Eurobond holders in addition to the Official Creditor Committee that was reached earlier in 2023 both of which have led to restructuring and rescheduling of some debt repayments to much later date. Government is now obliged to service its multilateral debtors as well as the Eurobond holders post debt restructuring.

Economic Affairs Function received a marginal increase in allocation of 22.4% in 2025 from 22.3% in 2024 as a share of the total 2025 and 2024 budgets, respectively and in absolute terms has been allocated ZMW48.7 billion in 2025 and received ZMW39.8 billion in 2024, respectively. The increase in allocation for the function in 2025 is mainly on account of the allocation to various interventions in the agriculture, fisheries and livestock sub – sectors in line with the Comprehensive Agriculture Transformation Support Programme which received an allocation of ZMW15.4 billion. Further, road infrastructure received a notable incremental allocation of ZMW11.98 billion in 2025 from ZMW8.34 billion in 2024 while the enhanced Constituency Development Fund received an allocation of ZMW5.63 billion in 2025 from ZMW3.8 billion in 2024. Other programmes under the Function in the 2025 Budget include Tourism Sub - Sector, provincial aerodromes infrastructure, credit guarantee scheme and aerial geological and geophysical mapping with allocations of ZMW1.29 billion, ZMW700.7 million, ZMW851.7 million and ZMW364 million, respectively.

The allocations to the Economic Affairs Function reflect Government's desire to transform the livelihoods of the citizenly especially with regard to increasing incomes and reducing inequalities through economic transformation and job creation. The expenditure lines for 2025 reflect that desire and are, therefore, on interventions which may address the constraints facing the economy and build a resilient and strong economy.

In the Health Function, the budgetary allocation as a share of the total budget reduced to 10.7% in 2025 from 11.8% in 2024 and in absolute terms increased to ZMW23.17 billion in 2025 from ZMW20.91 billion in 2024 representing a %age increase of 10.8%. A notable change in expenditure in the Health Sector is the increase in allocation to health infrastructure by 37.6% to ZMW1.92 billion in 2025 from ZMW1.395 billion in 2024. The 2025 Budget includes a new allocation amounting to ZMW718.2 million meant for medical equipment.

The Education Function received a further increase, in absolute terms, in the budgetary allocation for 2025 following another increase in 2024. The Function's allocation as a share of the total budget, however, reduced to 14.5% in 2025 from 15.4% in 2024. In absolute terms, the budgetary allocation for education has increased to ZMW31.5 billion in 2025 from ZMW27.35 billion in 2024 representing an increase of 15.17%. The increase in education by functional expenditure is meant to further consolidate the gains made in the Sector over the last two years which include the recruitment of teachers, construction of school infrastructure and provision of free education for primary and secondary school education up to grade 12. Notable budgetary allocations in 2025 include the provisions of ZMW2.25 billion and ZMW2.58 billion for school grants and school and university infrastructure, respectively.

Government's budgetary allocations as a percentage share of the total budget to social protection has substantially increased in 2025 to 7.4% from 5.4% in 2024 and in absolute terms has been allocated ZMW16.2 billion in 2025 from ZMW9.67 billion in 2024, respectively. Notable budgetary allocations for 2025 include the ZMW8.3 billion for the Social Cash Transfer Programme which has been increased substantially increased from ZMW4.1 billion in 2024. Further, ZMW1.2 billion has been allocated for the Food Security Pack in 2025 to support the vulnerable but viable farmers. The provisions are for the normal Social Cash Transfer as well as Drought Emergency Social Cash Transfer, Food Security Park and Keeping Girls in School. In addition, the allocations will finance the Cash for Work Programme to support people in the drought-stricken areas in 2024. Government has increased the allocations to the Public Service Pension Fund to ZMW4.17 billion in 2025 from ZMW3.9 billion in 2024 and has provided ZMW400.0 million to Local Authorities Superannuation Fund. The increase in the allocations is aimed at reducing the waiting time for pension payment as well as to be current with payments.

The continued increase in social spending by Government is in a bid to uplift the living standards of vulnerable citizenry and protect those affected by the drought.

Further, Government's budgetary allocations as a percentage share of the total budget to defence, public order and safety, housing and community amenities, environment protection and the 2014 budgetary allocation to social protection budget as a share of the total budget will increase to 5.4% in 2024 from 4.9% in 2023 and in absolute terms to ZMW9.7 billion from ZMW8.1 billion in 2023.

Further, budgetary allocations as a percentage share of the total budget for defence has been marginally reduced to 4.7% while that of public order and safety has been marginally increased to 3.9% in 2025 from 5.6% and 3.8% in 2024, respectively. In absolute terms, the budgetary allocations to the two functions increased to ZMW10.32 billion and ZMW8.4 billion from ZMW9.9 billion and ZMW6.8 billion in 2024, respectively. A notable budgetary allocation in 2025 under the Public Order and Safety Function is for the Integrated National Registration Information System (INRIS) which has been allocated ZMW217 million.

To support the 2025 ZMW217.1 billion national expenditure, Government proposes to collect revenue through both tax and non – tax measures as well as grants and borrowing. The measures will result in ZMW174.2 billion or 80.2% of the Budget financed from domestic revenue while ZMW8.2 billion or 3.8% will be grants from Cooperating Partners and ZMW34.7 billion or 16.0% financed through borrowing.

In 2025, Government hopes to raise ZMW174.2 billion or 21.3% of GDP as domestic revenue which will be increased by 22.7% to revised 2024 domestic revenue which stood at ZMW142.02 billion. Government, therefore, hopes to increase the share of domestic revenue in its resource envelope in 2025 to 80.2% as a share of the total budget compared to 79% in 2024.

Government further proposes to reduce the share of total financing and grants in 2025 by 4.6% to ZMW42.92 billion from ZMW45 billion in 2024. In particular, ZMW8.17 billion will be in form of grants from Cooperating Partners while ZMW34.8 billion will be debt financing. Thus, the budget deficit for 2025 is estimated to be ZMW34.8 billion or 3.1% of GDP. See Figure 3 for the summary of the country's resource envelope for 2025 in comparison to 2024 and 2023 fiscal years.

6.0 Measures Put in Place in handling the economic growth, industrialization and job creation

The amount allocated for economic affairs is not adequate as it is just a 22.4% of total budget on the background of attaining 6.6% economic growth. One would expect more budget and measures to stimulate economic growth and to ensure that the SME sector starts growing.

We have taken note of some initiatives taken up in the agricultural sector (which accounts for about 50% of employment in Zambia according to the CSO). We are of the view that comprehensive programs like the Aquaculture transformation program are critical to build capacity and competitive advantage is selected sectors. We are of the view that two other sectors (for example cashew nuts, horticulture or other high value cash crops) in addition to Aquaculture which have ability to create jobs and create more tax revenue sources should have been targeted. This is a more sustainable way of providing social protection and creating wealth for Zambians.

We also recommend for enhanced support to small scale farmers for climate resilience and improvement of yields. Making farming more climate resilient would involve a combination of strategies that can help our farmers withstand and adapt to the impacts of climate change. The challenges that farmers have faced in the 2023/24 season bring the need for resilience to the fore.

Making agriculture resilient would include measures such as:

1. **Diversification of Crops and Livestock**: Growing a variety of crops can reduce the risk of total crop failure due to extreme weather events. Diversification also includes integrating livestock with crop production to optimize resource use. The challenges in cattle reliant farming communities such as Southern and Western provinces demonstrate the clear need for this.
2. **Improved Soil Management**: More resources should be allocated to soil testing so that farmers can know what crops and seed varieties should be used for their land. This should be integrated into the Farmer Input Support Programme (FISP). Currently, farmers receive standardised inputs that may not be suitable for their soil type or weather patterns..

3. **Water Management and Conservation**: Efficient irrigation systems, rainwater harvesting, and the use of drought-resistant crop varieties can help conserve water and reduce vulnerability to water scarcity. We commend government for allocating resources to water capture through the construction of dams. This programme must be expanded beyond the 12 dams that are planned for construction in 2025.
4. **Agroforestry**: Integrating trees into farming systems can provide shade, act as windbreaks, improve soil health, and enhance biodiversity, all of which contribute to climate resilience. We note with concern that this area was not addressed in the 2025 budget.
5. **Use of Resilient Crop Varieties**: Developing and planting crop varieties that are resistant to pests, diseases, and extreme weather conditions can help ensure food security. As noted above, the standardised approach to input support should be revisited to ensure that inputs are tailored to the needs of specific farmers,
6. **Weather Forecasting and Early Warning Systems**: Access to accurate and timely weather information can help farmers make informed decisions about planting and harvesting times and other farm management practices. A key contributor to crop failure in the 2023/24 season was poor access to information especially in rural communities. We note that even inputs that were distributed were not drought resistant, leading farmers to assume that it would be a normal farming season. More investment must be made into agricultural information, using multiple channels.

These measures will be more effective when combined, as part of an integrated approach to building resilience in the agricultural sector.

7.0 Economic Transformation and job creation- SME Support

We have noted that the budget is trying to address mainly economic growth and job creation.

The most sustainable path to job creation and economic growth is to provide support to the private sector which helps the companies grow. We have seen concrete steps taken to help the local farmers grow, applicable to both small and medium sized farmers. We have only observed broad plans for the SME commercial sector coming under the new

Ministry of SMEs. We expect that the support to be provided to SMEs and Cooperatives will be similar to that planned in the agricultural sector. We expect at a minimum:

- Programs to be designed to provide financing : grants and cheap loans (for both working capital and capital expenditure)
- Operationalization and increasing funding to the Credit Guarantee scheme is very welcome. This should reduce interest rates and in turn increase access to finance by SMEs.

8.0 TAX AND RELATED MEASURES

8.1 Corporate Income Tax

Increase of Corporate Income Tax ("CIT") rate on profits from non-traditional exports and value addition to copper cathodes

The Hon. Minister proposes to increase the CIT rate to 20% on profits derived from the export of non-traditional products and the value addition to copper cathodes. Currently, the applicable CIT rate on the respective income streams is 15%.

Commentary

This adjustment is in line with the Government's strategy to harmonise the CIT framework over the medium term, streamlining tax incentives and, aiming to create a more equitable and efficient tax system. In the short term, this measure may boost the tax revenue derived from companies that produce non-traditional exports and companies that add value to copper cathodes. However, in the medium to long term, this may negatively impact new investments as well as expansion in current operations for companies in the respective sectors.

8.2 Introduction of Advance Income Tax on remittances

The Hon. Minister proposes to introduce an Advance Income Tax ("AIT") of 15% on remittance of funds exceeding $2,000 or its equivalent. If legislated, the AIT will be applicable on transactions carried out by persons without a valid Tax Clearance Certificate ("TCC"). Additionally, the 15% AIT will be applicable to remittances by exporters in the case that the exporter does not have a valid TCC

Commentary

Currently, obtaining a TCC is not mandatory on exports and remittances of funds outside Zambia. This proposal is envisaged to achieve the following:

- Harmonise the practice on exports and outbound remittances with the current practice on imports. Currently, importers without valid TCC are subject to AIT of 15% of the value for duty purposes; and
- Enhance tax compliance and curb illicit financial flows.

Given the taxpayer reconciliation challenges that taxpayers are faced with and the need to confirm TCC's in realtime, this measure could potentially become a hinderance to trade Enforcement of tax compliance by creating processes that may hinder trade is not an efficient tax policy tool.

As a long term measure to promote greater compliance, we continue to advocate for a single national identity system that will be linked to all individual interactions with the state and regulatory authorities. Taxpayers will then not have to procure and submit TCC's at every turn. The benefits of a national identity system include;

Improved Data Accuracy and Integration: A single identity allows for the integration of various databases across different government departments. This integration makes it easier to track financial transactions and income sources, reducing the opportunities for individuals or entities to underreport income or hide assets.

Enhanced Monitoring and Compliance: With a unified identity system, the ZRA authorities can more effectively monitor taxpayers' compliance. It simplifies the process of cross-referencing information and identifying discrepancies in tax declarations.

Reduced Identity Fraud: A secure national identity system can help prevent identity theft and fraud, which are often used to evade taxes. By having a single, verifiable identity, it becomes more difficult for individuals to use false information to avoid their tax obligations.

Streamlined Administration: A single identity system can streamline tax administration by reducing the need for multiple identifiers and simplifying the process of filing taxes. This can lead to increased efficiency in tax collection and lower administrative costs.

Better Policy Making: With more accurate and comprehensive data, policymakers can make better-informed decisions regarding tax policy. This can lead to the creation of more effective measures to prevent tax avoidance.

International Cooperation: A national identity system can facilitate the exchange of information with other countries under tax treaties and agreements. This global cooperation is crucial in tackling tax avoidance, especially when it involves offshore accounts and international transactions, which are often linked to passports (based on national identity rather than TPINs).

Increased Taxpayer Convenience: For taxpayers, a single identity can make it easier to interact with the tax authorities, reducing the complexity and time involved in fulfilling their tax obligations.

Greater Transparency: A unified system promotes transparency in financial transactions and tax matters, which can deter individuals and businesses from engaging in tax avoidance schemes.

Legal Enforcement: With a single identity, it becomes easier to enforce legal actions against those who engage in tax avoidance, as there is a clear link between the individual or entity and their financial activities.

Public Trust: A robust national identity system can increase public trust in the tax system by demonstrating that everyone is subject to the same rules and that the government is taking steps to ensure fairness.

The single national identity project is a critical tool in combating tax avoidance, and its swift implementation is essential. However, it must be supported by robust privacy protections and stringent security measures to prevent the misuse of personal data. Additionally, this initiative should be part of a comprehensive strategy that includes legal reforms, international cooperation, and effective enforcement mechanisms to ensure its success. Integrating these elements will maximize the project's potential while safeguarding individual rights and maintaining public trust.

The measure is not expected to negatively impact compliant taxpayers.

8.3 Increase of Presumptive Taxes on Motor Vehicle Operators

The Hon. Minister proposes to revise the bands for presumptive tax on operators of public service vehicles involved in the carriage of persons. The table below details the proposed increase per annum per vehicle seating capacity. The proposed increase seeks to adjust the current rates for inflation.

Type of vehicle (sitting capacity)	Current regime - 2024	Proposed regime - 2025
64 seater and above	K12,960	K15,552
50 - 63 seater	K10,800	K12.960
36 - 49 seater	K8,640	K10,368
22 - 35 seater	K6,480	K7,776
18 - 21 seater	K4,329	K5,184
12 - 17 seater	K2,160	K2,592
Below 12 seater (including taxis)	K1,080	K1,296

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The enforcement of the presumptive tax on passenger vehicles needs to be enforced especially in the taxi industry. This will require corporation with law enforcement agencies such as the Zambia Police Service and the Road Transport and Safety Agency (RTSA).

9.0 NONTAX MEASURES

9.1 Mobile Money - Amendment of the Mobile Money Transaction Levy Act, 2023, to appoint ZRA to administer the Act

In 2024, the Government introduced levies on person-to-person mobile money transfers at different rates based on the amounts transferred in order to bolster revenue collection. The levy is currently administered by the Bank of Zambia. To leverage on the existing systems and various mechanisms that ZRA in place, the measure proposes to amend the Act to appoint the Zambia Revenue Authority as administer of the levy

Commentary

The ZRA, with its established infrastructure and expertise in tax collection, is wellpositioned to administer the levy more efficiently than the Bank of Zambia, whose primary focus is monetary policy and financial sector regulation. This transition is expected to leverage ZRA's existing mechanisms for tax collection, which include advanced IT systems for tracking transactions, a robust framework for compliance and enforcement, and a comprehensive taxpayer database. The integration of the mobile money transaction levy into ZRA's portfolio is anticipated to streamline the collection process, reduce administrative overheads, and potentially increase compliance rates through more effective enforcement mechanisms. Although it is not clear how the ZRA will collect this levy.

9.2 Replace the words "electronic fiscal device" with the words "Electronic Invoicing System" in the Insurance Premium Levy Act wherever the word appears

Commentary

The shift to an Electronic Invoicing System marks a significant improvement in the administration of the Insurance Premium Levy. However, the existing legal provisions still reference electronic fiscal devices, which were phased out in 2023. It is essential for the legislation to be updated to reflect this change, ensuring clarity and accuracy in tax management. The proposed amendment seeks to replace references to electronic fiscal devices with "Electronic Invoicing System," thereby eliminating ambiguities in the current legal framework and reducing potential conflicts between taxpayers and the tax authority.

10 CONCLUSION

We believe that the Budget is a necessary fiscal tool to create positive contribution to economic growth and poverty eradication. We have noted that the 2024 Budget has created a conducive environment for the private sector to thrive in employment creation and contribute to the growth of our economy.

Finally, we would like to thank the government for listening to the submissions from ZICA on different issues.