



Comments on the Budget Estimates for the 2026 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 2026 National Budget presented to the Parliament on Friday, 26th September 2025 by the Minister of Finance, *Hon. Dr. Situmbeko Musokotwane, MP*, under the theme **“Consolidating Economic and Social Gains Towards a Prosperous, Resilient and Equitable Zambia”**. 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 2026 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

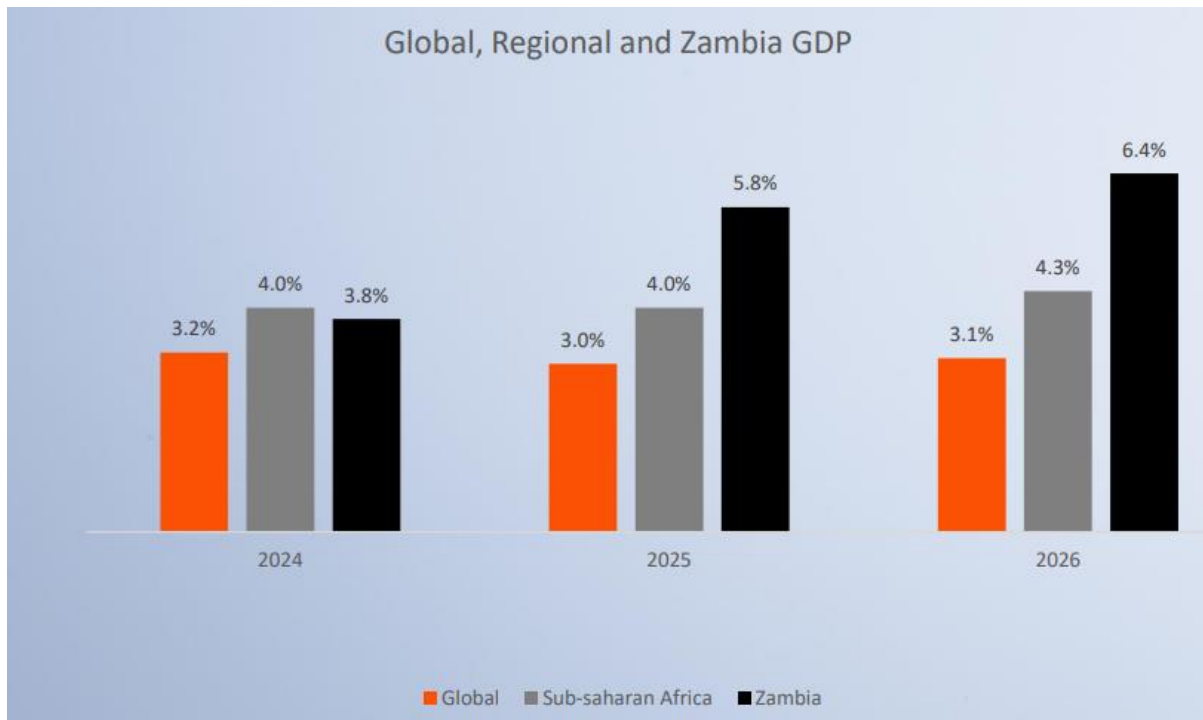
2.1. Global Economy

The global economy is expected to decline to 3% in 2025 from 3.2% in 2024, owing to the subdued growth in the major advanced economies. In 2026, a modest pick-up to 3.1 percent is projected due to improved financial conditions and fiscal expansion in major economies. Two notable events that increased global growth are improved financial conditions and fiscal expansion in major economies.

IMF projects that Sub-Saharan Africa's growth will remain steady at around 4.0% in 2025, increasing moderately to 4.3% in 2026. Positive influences include improved agricultural output and a decline in inflation rates. However, challenges such as weaker external demand, fluctuating commodity prices, and ongoing global uncertainties contribute to a cautious economic outlook for the region.

2.2 Zambian economy

In 2024, the economy was resilient as it grew by 3.8 percent despite the severe drought experienced in the 2023/2024 rainy season. Growth is projected to be higher in 2025, at 5.8 percent, owing to increased mining activity, recovery in agriculture, and strong performance of the information and communication technology sector.



3. Budget objectives;

Zambia's 2026 economic outlook is broadly positive, underpinned by strong GDP growth, declining inflation, and improved fiscal discipline. The narrowing deficit and stable reserves signals a return to macroeconomic stability. However, sustaining growth will require a cautiously optimistic approach amid lingering external and domestic risks.

To build on recent economic and social progress, the Government has set the following macroeconomic targets for 2026:

- a) Attain real GDP growth of 6.4%
- b) Lower inflation to the medium-term target of 6-8%
- c) Maintain International Reserves at 4.0 months of import cover
- d) Increase domestic Revenue to 22.3% of GDP
- e) Reduce the fiscal deficit to 2.1% of GDP
- f) Net Domestic Borrowing 2.3%

Zambia's 2026 fiscal strategy aims to reduce the deficit to 2.1% of GDP and cap net domestic borrowing at 2.3% of GDP, but several risks threaten these objectives. Heavy dependence on mining revenues leaves the budget vulnerable to commodity price

fluctuations, underscoring the urgent need to diversify exports. Although Zambia has restructured 92% of its external debt by September 2025, debt service obligations remain considerable, and the resumption of Eurobond and bilateral payments has heightened foreign exchange demand. Domestic financing requirements now outpace external debt, with borrowing rising to K21.6 billion compared to K12.87 billion externally. This trend risks crowding out private sector credit, potentially constraining economic activity. Policymakers must carefully manage domestic borrowing to avoid undermining private sector growth. Maintaining fiscal discipline while ensuring affordable credit for SMEs and investors is essential for fostering private sector-led growth. Achieving this balance will be critical for inclusive job creation and economic diversification, both of which are central to Zambia's long term development.

3.1 Fiscal Deficit

Zambia has made substantial progress in fiscal consolidation, reducing its deficit from 9% of GDP in 2021 to 3.5% in 2024. However, an increase to 4.6% is projected in 2025, reflecting the need to contain increased spending on social protection, fuel, arrears clearance, and higher interest payments on restructured debt. Revenue performance has been robust, supported by improved mining receipts and new tax measures, but expenditure pressures remain significant.

3.2 Inflation

During 2024 Inflationary pressures remained elevated, peaking at 16.7% in December 2024. As of August 2025, inflation has since moderated, reaching 12.3%. The decline is attributed to lower fuel prices, a stronger kwacha, and the easing of supply constraints complemented by lower food prices following the bumper harvest of 3.7 metric tonnes. Food inflation fell to 14.9% in August 2025 from 15.3% in July 2025, while non-food inflation eased to 9.3% from 9.7%.

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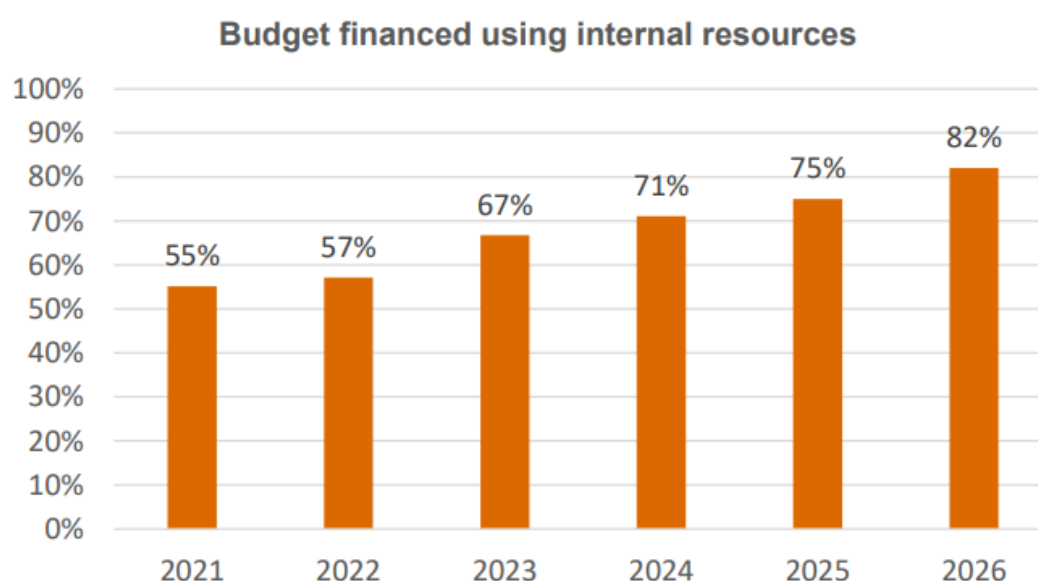
3.3 Exchange Rate

The Kwacha experienced significant volatility in 2024, depreciating by over 21% against the US dollar due to drought-related energy imports and global shocks. However, in 2025,

the currency stabilised and appreciated by 4% in the second quarter, supported by increased foreign exchange supply from mining and agriculture, and lower import demand. As of September 2025, the Kwacha traded around K23.8/\$ compared to K27.9/\$ at the end of 2024.

3.4 FISCAL AND DEBT MANAGEMENT

The 2026 budget emphasises fiscal consolidation, targeting a deficit of 2.1% of GDP – the lowest in over a decade. This compares with a revised 2025 deficit of about 4.6%, which rose after drought-related spending and a supplementary budget. The Government plans to finance K 206.5 billion of the budget (82% of the planned expenditure and 22.3% of GDP) through domestic revenues – the highest ratio in more than a decade. Stronger mining receipts, improved tax compliance, and targeted measures such as higher fees and levies underpin this growth.



Source: Annual budget speeches

**2025 estimate based on initial budget for that year adjusted for details in the 2025 Supplementary Budget*

Commentary

External debt restructuring

A cornerstone of improving public finances has been the restructuring of Zambia's unsustainable external debt. Zambia has made substantial progress in resolving its debt crisis. According to the Status of External Debt Restructuring Analysis provided by the

Ministry of Finance and National Planning during the half year economic review, the status of the External Debt Restructuring process is as follows:

Debt Restructuring (Agreed In Principle)



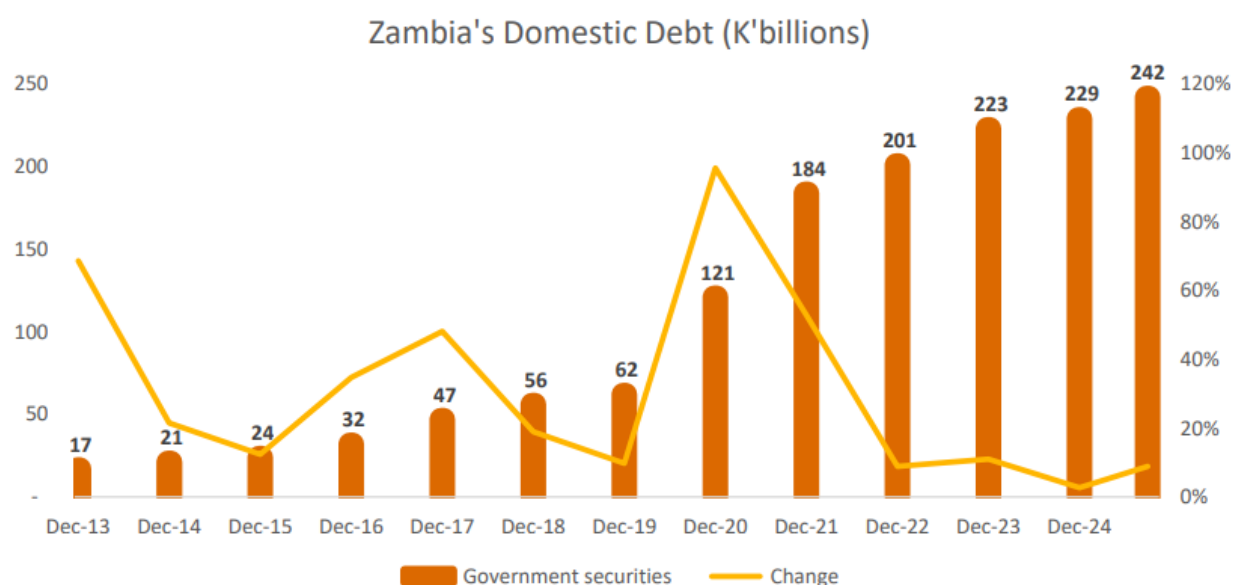
Debt Restructuring (Fully Restructured)



Progressing from Agreements in Principle to fully restructured debt has been slow, delaying payments to several creditors. Once finalised, annual external debt repayments are expected to rise. Completing the restructuring is also crucial for any meaningful improvement in Zambia's international credit ratings. Overall, the country's total external debt stock excluding publicly guaranteed debt now stands at US\$15.78 billion, a 2.3% increase from US\$15.43 billion as at December 2024. This was primarily driven by disbursements by multilateral and plurilateral creditors. Publicly guaranteed external debt was, however, unchanged at US\$1.36 billion. The incremental debt is concessional and largely came from previously contracted debts.

The Domestic Debt

The more pressing challenge now is domestic debt, which reached K225.5 billion by mid-2024—double the 2020 level and nearly four times the K62 billion recorded in 2019.



Source: Bank of Zambia Fortnightly Statistics and 2026 Budget speech

Debt servicing costs are substantial, with K52 billion allocated for domestic interest payments in 2026 due to the maturity of loans contracted during the borrowing surge. Domestic debt service now accounts for 20.6% of total expenditure—an unprecedented level. The Annual Borrowing Plan limits net domestic financing to K21.6 billion (2.3% of GDP), underscoring efforts to curb reliance on expensive local borrowing. 2026 will be pivotal as Zambia aims to finalise external debt restructuring, begin repayments, and manage sharply higher domestic debt service costs.

4 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 2026 FISCAL MEASURE AND ALLOCATIONS

The increase in the 2026 Budget has been driven by the following Expenditure Allocations:

Description	2026 Budget	2026	2025 Budget	2025
	K'M	%	K'M	%
General Public Service	92,607	37%	73,815	34%
Defense	11,869	5%	10,321	5%
Public Order and Safety	9,633	4%	8,406	4%
Economic Affairs	58,650	23%	48,714	22%
Housing & Community Amenities	3,208	1%	2,989	1%
Health	26,174	10%	23,167	11%
Recreation & Culture	669	0%	559	0%
Education	33,037	13%	31,493	15%
Social Protection	15,673	6%	16,161	7%
Climate Change Resilience	1574	1%	1481	1%
Totals	253,094		217,106	

As a share of the total budget, there has been an increase in expenditure on general public services from 34% in 2025 to 37.0% in 2026. Out of the total General Public Services allocation of ZMW92.6 billion, ZMW52 billion is for domestic debt servicing, ZMW21.6 billion is for external debt servicing and ZMW4.6 billion is for dismantling domestic arrears bringing the total for debt servicing and dismantling of domestic arrears to ZMW 79.2 billion in 2026 from ZMW59.63 billion in 2025.

Clearly, there has been a substantial increase in resources allocated to debt servicing and dismantling of arrears in the 2026 budget from a total of ZMW59.63 billion in 2025 to a total of ZMW79.2 billion in 2026 representing a 32.8% increase. The increase has seen foreign debt servicing being allocated ZMW21.6 billion in 2026 as compared to ZMW16.6 billion in 2025 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.

Defence: To be allocated K11.9 billion (4.7% of the budget) up from K10.3 billion (4.7% of the budget) in 2025.

Economic Affairs: K58.6 billion (23.2% of the budget) up from K48.7 billion (22.4% of the budget) in 2025, primarily focused on road infrastructure (K14.5 billion), agriculture (K15.5 billion), and Constituency Development Fund (K6.2 billion) translating to K40 million per constituency.

Health: K26.2 billion (10.3% of the budget) up from K23.2 billion (10.7% of the budget) in 2025, with emphasis on medical supplies and infrastructure.

Education: K33.0 billion (13% of the budget) up from K31.5 billion (14.5% of the budget) in 2025, funding school grants and infrastructure development.

Social Protection: K15.7 billion (6.2% of the budget) down from K16.2 billion (7.4% of the budget) in 2025, covering programs like the Social Cash Transfer and Cash for Work.

To meet these macroeconomic objectives, the government has developed several sector specific policies that align with the Eighth National Development Plan's strategic development areas: Economic Transformation and Job Creation; Human and Social Development; Environmental Sustainability; and Good Governance Environment.

6 Alignment of the 2026 National budget with the 8th National Development Plan

The 8NDP, covering the period 2022-2026, is Zambia's blueprint for achieving its Vision 2030 goal of becoming a prosperous middle-income nation. It is structured around four Strategic Development Areas (SDAs), or pillars, designed to drive "Socio-economic Transformation for Improved Livelihoods." An assessment of the 2025 economic performance against these pillars reveals a mixed picture of significant progress in some areas alongside persistent structural challenges in others.

6.1 Economic Transformation and Job Creation

This is the central pillar of the 8NDP, aimed at fostering an "industrialised and diversified economy" by shifting resources from low to higher-productivity activities, creating jobs, and building resilience. The performance in 2025 shows a strong economic recovery but progress toward genuine economic transformation was tempered.

Economic Growth and Diversification

The economy demonstrated remarkable resilience, expanding by 4.5% in Q1 and accelerating to 5.2% in Q2 2025. This strong start has bolstered confidence, with full-year projections converging on a highly optimistic outlook of 5.8% to 6.2%. If realized, this would be the nation's strongest economic performance in four years.

However, a deconstruction of the GDP data reveals a dualistic growth pattern that lags the 8NDP's diversification goals. The economic expansion was overwhelmingly driven by a V-shaped recovery in the primary sectors. The Agriculture, Forestry, and Fishing sector grew by an extraordinary 74.4% in Q1 and 42.9% in Q2, a strong rebound from the 2024. Similarly, the Mining and Quarrying sector expanded robustly by 16.5% in Q1 and 10.4% in Q2, reasserting its dominance. At current prices, mining (17.4%) and wholesale & retail trade (19.1%) were the largest contributors to GDP in Q2, while agriculture's share was a mere 1.8%.

The manufacturing sector's performance illustrates the sobering nature of the challenge. After growing by a 1.5% in 2023, the sector grew by 4.2% in the second quarter of 2025, moderately below the 8NDP's 5% annual growth target. The sector's contribution to Q2 growth (0.4 percentage points) was dwarfed by that of agriculture (1.9 percentage points) and the robust Information and Communication sector (2.3 percentage points).

Fiscal and External Sector Performance

The economy's heavy reliance on mining is also reflected in its fiscal and external accounts. The Zambia Revenue Authority (ZRA) exceeded its H1 2025 revenue target by K2.9 billion, a critical achievement for fiscal consolidation. However, this was driven by higher-than-expected collections from the booming mining sector, which masked underperformance in broad-based consumption taxes like VAT and excise duties. This suggests that while the overall fiscal position is improving, its foundation has become narrower and more dependent on the volatile and price sensitive copper mining sector.

Zambia's external position strengthened considerably, recording a trade surplus of K3.3 billion in August, powered by a 9.0% year-to-date increase in refined copper exports. This copper-fuelled surge strengthened the Kwacha and allowed the Bank of Zambia to build its Gross International Reserves to \$4.7 billion by June 2025. While Non-Traditional Exports (NTEs) grew, an abrupt key 2025 tax measure increased the Corporate Income Tax on profits from these very exports from 15% to 20%, a policy move that could inadvertently hinder the diversification agenda.

Job Creation

A critical limitation in assessing this pillar is the absence of a 2025 Labour Force Survey. Without this data, it is impossible to measure the extent to which the economic recovery has translated into "improved livelihoods" through job creation. The growth's concentration in capital-intensive mining and largely informal agriculture suggests the link to widespread formal employment may be weak, posing a significant challenge to the 8NDP's central theme.

6.2 Human and Social Development

This pillar focuses on developing human capacities through investments in education and skills, health and nutrition, water and sanitation, and on reducing poverty, inequality, and vulnerability.¹ The 2025 performance indicates positive macroeconomic conditions for human development, but direct evidence of progress is limited.

Poverty and Inequality

The successful taming of inflation is a major achievement for this pillar. After peaking at 16.8% in February, the annual inflation rate fell consistently to 12.3% by September. This was driven by a sharp deceleration in food inflation to 14.6% in September, a direct result of the bumper agricultural harvest. This moderation in food prices provides crucial relief to household budgets, protects purchasing power, and helps mitigate poverty. However, with national poverty and inequality data not yet available for 2025, the full impact on livelihoods remains unquantified.

Health, Education, and Social Services

The government's ability to finance social services is improving. The ZRA's revenue over-performance provides greater fiscal space for investments in health, education, and social protection. The 2025 budget saw a 21.7% increase in allocations to the social sector (health, education, social protection, and WASH) to K73 billion. The government has successfully expanded social protection programs, including free education, social cash transfers, food security packs, and school feeding initiatives. However, with national poverty and inequality data not yet available for 2025, the full impact on livelihoods remains unquantified. The 8NDP sets clear goals, such as increasing net enrolment rates in primary and secondary schools and improving the pupil-teacher ratio, but 2025 progress reports on these specific metrics are not yet available. However, other available data suggests a significant increase in access to education and school enrolment.

6.3 Environmental Sustainability

This pillar aims to ensure that development pathways are sustainable by promoting green growth, safeguarding natural resources, and building resilience to climate change. The events of 2024-2025 have starkly highlighted both the critical importance and the immense challenges of this pillar.

Climate Resilience and Adaptation

The agricultural sector's dramatic swing from a devastating drought-induced contraction in 2024 to an astounding 74.4% growth in Q1 2025 is a powerful reminder of the economy's vulnerability to climate change. The 2025 bumper harvest underscores the potential of favourable weather, but it also highlights the urgent need for investment in climate-smart infrastructure, such as irrigation, to build resilience against future shocks, a key objective of the 8NDP.

Energy and Green Growth

The national energy crisis is the most significant challenge under this pillar. The electricity sector contracted by 17.7% in Q1 and 9.8% in Q2 2025, acting as a direct brake on industrialisation and economic diversification. This deficit, estimated at 2.5 GW, is the single greatest threat to Zambia's long-term transformation. In response, the government is pursuing reforms aligned with green growth principles, including a shift to cost-reflective tariffs to attract private investment into the energy sector, particularly in renewables. This move is essential for building a more resilient and sustainable energy mix, reducing dependence on hydropower, and meeting the 8NDP's environmental goals.

6.4 Good Governance Environment

This pillar focuses on creating a conducive environment for development through a stable policy framework, adherence to the rule of law, transparency, and accountability. Performance in 2025 shows a mixed record of positive reforms alongside persistent administrative and policy challenges.

Policy Framework and Partner Assessments

The government's adherence to the IMF-supported ECF program demonstrates a commitment to disciplined macroeconomic management, which has been crucial in restoring investor confidence and stabilizing the economy. A landmark achievement in 2025 was the completion of 92% of the debt restructuring process, creating a clearer path towards long-term fiscal sustainability.

This commitment has been recognised by key international partners. At the close of its 2025 Article IV Consultation and completion of the Fifth Review Under the Extended Credit Facility with Zambia, the IMF Executive Board concluded that Zambia's program performance has been "broadly satisfactory" and that the overall economic outlook "remains positive". The Fund commended the government for the country's growth performance and progress on fiscal consolidation, while recommending sustained, revenue-led fiscal consolidation and the maintenance of a tight monetary policy.

Transparency and Accountability

The Ministry of Finance continues to set new benchmarks for transparency on economic reporting with regular public updates on monthly expenditure. Budget documents are reasonably transparent and fiscal information is available, however, the process of consultation on new fiscal legislation could be more comprehensive and deliberate. Coverage on fiscal risks from public entities is also an area that needs improvement. Despite the positive macroeconomic management, administrative weaknesses and policy consistency also remain significant challenges. The reported failure of the Zambia Mining Cadastre (ZIMIS) online portal in 2025 disrupted the processing of licenses, highlighting a regulatory fragility that could deter future investment. Furthermore, the IMF has emphasized the need for sustained budget discipline, especially with the 2026 elections approaching, as a key test of governance.

7 TAX AND RELATED MEASURES

7.1 Income Tax Measures

The proposed amendments to the Income Tax Act are multifaceted, encompassing targeted concessions to stimulate growth, compensating measures to broaden the revenue base, and housekeeping amendments to modernise the legal framework.]

Revenue Concession Measures

These measures are designed to provide targeted fiscal relief to incentivise investment, support small enterprises, and promote social objectives.

7.1.1 Extend the 2 percent local content allowance to income earned from value addition to milk, raw hides and skins.

Commentary

This measure expands an existing incentive under Section 34B of the Income Tax Act to the dairy and leather sub-sectors. The primary goal is to encourage domestic value addition in industries with significant, yet largely untapped, potential. Zambia's dairy sector is dominated by low-productivity smallholders, while the leather industry has struggled with poor raw material quality and a lack of investment. While a 2% allowance is a modest direct financial incentive, its real value lies in its function as a strong policy signal. It designates these value chains as national priorities, which can unlock more substantial investment.

7.1.2 Remove carry forward time limitation of disallowed interest under section 29(4) of the Income Tax Act.

Commentary

This proposal removes the 5-year (and 10-year for mining/electricity) time limit for carrying forward interest expenses that are disallowed under the 30% of EBITDA cap. This is a significant pro-investment reform that aligns Zambia with the most flexible interpretation of the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project's Action 4 recommendations. The BEPS framework explicitly presents indefinite carry-forward as a best-practice option to ensure that interest limitation rules do not unduly penalise businesses with long investment cycles or volatile earnings. This is particularly crucial for Zambia's strategic mining and energy sectors.

7.1.3 Increase the Turnover Tax and Rental Income Tax exempt threshold to K2,500 from K1,000 per month.

Commentary

This measure provides direct tax relief to micro-enterprises and low-income landlords, many of whom operate in the informal sector. Presumptive regimes like Turnover Tax are designed to simplify compliance for small taxpayers. Raising the tax-free threshold is a pragmatic policy that serves two functions. Administratively, it removes many very low-yield taxpayers from the tax net, allowing the ZRA to focus its resources more efficiently. Socially, it lessens the tax burden on the most vulnerable businesses, aligning with the budget's equity objectives.

7.1.4 Increase the turnover threshold for Artisanal and Small-Scale mining from K800,000 to K5,000,000.

Commentary

This measure aligns the presumptive tax threshold for the Artisanal and Small-Scale Mining (ASM) sector with the standard Turnover Tax threshold. The ASM sector in

Zambia is a major source of livelihood but is largely informal, posing challenges for regulation and tax collection. This harmonisation is a critical step towards formalisation.

7.1.5 Reduce the penalty for late Turnover Tax payment to 0.5 percent from 5 percent per month.

Commentary

This measure significantly reduces the penalty for late payment of Turnover Tax, acknowledging the cash flow volatility common among the micro and small enterprises subject to this regime. A punitive 5% monthly penalty can quickly create an insurmountable debt burden, potentially forcing a struggling business back into informality. A lower penalty adopts a more supportive approach to compliance, aiming to encourage voluntary payment by making the consequences of temporary delinquency less severe.

7.1.6 Increase the allowable income tax deduction for companies that employ Persons with Disabilities to K2,500 from K2,000 per annum.

Commentary

This proposal enhances the tax incentive for employers under Section 43D of the Income Tax Act. While the monetary increase is modest, the measure is symbolically important and aligns with established international norms. The International Labour Organization (ILO), the World Bank, and the OECD all advocate for policies that promote the labour market inclusion of persons with disabilities. Tax incentives are a widely used tool globally to encourage the hiring of persons with disabilities.

7.1.7 Income Tax concessions for the TAZARA Railway Public-Private Partnership (PPP).

Commentary

This is one of the most significant incentive measures in the budget, creating a bespoke and highly generous fiscal regime to attract private investment for the revitalisation of the TAZARA railway. The railway is in a state of disrepair, and its rehabilitation is beyond the government's fiscal capacity, making a PPP essential. The concessions, including a multi-year corporate income tax holiday and significantly relaxed rules on loss and interest deductibility, are significant. This approach must be assessed against the OECD Principles for Public Governance of Public-Private Partnerships, which stress the need for rigorous value-for-money analysis and transparent management of long-term fiscal risks. The government is making a substantial, multi-decade fiscal gamble, betting that

the indirect economic benefits of a functional railway will ultimately outweigh the significant direct loss of tax revenue.

Compensating Measures

These measures are intended to offset revenue forgone from concessions by broadening the tax base.

7.1.8 Exclude public service vehicles with a seating capacity of 50 and above from Presumptive Tax.

Commentary

This measure moves large bus operators from the simplified Presumptive Tax regime to either Turnover Tax or the standard Corporate Income Tax, depending on their annual turnover. This is a logical and equitable reform, as presumptive tax regimes are designed for smaller, often informal, operators for whom standard accounting is a significant burden. Operators of large buses are typically more formalised corporate entities with the capacity to comply with standard tax rules. Keeping them in a low, fixed-tax regime violates the principle of horizontal equity.

However, this measure introduces significant complexity for businesses that operate mixed fleets of both large (50+ seats) and small (<50 seats) buses. For such a business, the income from smaller vehicles would remain under the fixed Presumptive Tax, while the income earned from the larger buses would be carved out and taxed separately. The total annual turnover of the entire business would then determine whether this segregated income is subject to Turnover Tax (if total turnover is K5 million or less) or Corporate Income Tax (if total turnover exceeds K5 million). This creates a hybrid tax situation for a single entity, significantly increasing the compliance burden. The business would need to maintain separate, detailed records to segregate revenue streams and would lose the overall simplicity that the presumptive regime was designed to provide. This complexity could act as a disincentive for smaller operators to expand their fleets to include larger vehicles. We urge government to resolve this potential complexity in the substantive tax legislation.

7.1.9 Extend Advance Income Tax (AIT) on foreign remittances to non-bank platforms.

Commentary

This measure closes a major loophole in Section 81C of the Income Tax Act by extending the AIT on foreign remittances over US\$2,000 to non-bank platforms, such as mobile money operators. The rapid growth of digital financial services has created new channels for cross-border payments that were not covered by the existing bank-focused legislation. This amendment modernises the tax system and levels the playing field between

traditional banks and fintech platforms. It aligns with the international agenda, driven by the OECD and the Global Forum, to ensure tax transparency and compliance across all financial channels, including digital ones.

Housekeeping Measures

These technical amendments are aimed at modernising tax legislation and ensuring international compliance.

7.1.10 Allow mineral processing businesses to keep books of accounts in US dollars.

Commentary

This measure directly amends the provisions of Section 55 of the Income Tax Act. Currently, Section 55(1A) mandates that all business records be kept in Zambian Kwacha. However, Section 55(4) provides a specific exception, allowing a person carrying on mining operations to elect to keep books of account in United States Dollars (USD), provided at least 75% of their gross income is earned in foreign exchange. The proposed measure extends this same facility to businesses engaged in mineral processing.

This is a pragmatic and welcome extension that acknowledges the economic reality of the sector, which is intrinsically linked to global commodity markets where the USD is the standard currency. Allowing these businesses to account in USD reduces their administrative burden and insulates them from currency volatility, eliminating significant foreign exchange gains or losses that can arise on paper. However, a better long-term solution would be to align the Income Tax Act more broadly with International Financial Reporting Standards (IFRS), specifically IAS 21, which allows any entity to use its "functional currency" the currency of the primary economic environment in which it operates. Adopting a principles-based functional currency approach would be more equitable, applying to all export-oriented businesses, not just a specific sub-sector.

7.1.11 Allow taxpayers on voluntary VAT registration scheme to also register for Turnover Tax.

Commentary

This measure addresses a legislative anomaly where small businesses that voluntarily register for VAT are required to register for the more complex standard Income Tax regime, even if their turnover were below the threshold that would otherwise allow them to use the simpler Turnover Tax system. The proposed solution is to explicitly permit these businesses to be on both the voluntary VAT scheme and the Turnover Tax regime. While this provides a functional solution, a simpler and more direct legislative approach could have been to amend the underlying provision in the Income Tax Act, such as Section 64A(1), to remove the requirement for voluntary VAT registrants to register for standard Income Tax in the first place. This alternative would eliminate the anomaly at its source rather than creating a specific allowance to bypass it.

7.1.12 Align the legal framework for Exchange of Information (EOI) with international standards.

Commentary

This amendment to Section 74 of the Income Tax Act is a critical and direct response to Zambia's commitment to international tax transparency standards. Having recently become the 171st member of the Global Forum on Transparency and Exchange of Information for Tax Purposes, Zambia is subject to a rigorous peer review process that assesses its legal framework and practical ability to exchange tax information. This legislative change is almost certainly intended to address specific recommendations arising from such a peer review, which is a prerequisite for maintaining a favourable compliance rating. A key element of the Global Forum's standard is the requirement that jurisdictions have access to information on the ultimate beneficial owners of companies. This links the Income Tax Act amendment directly to the parallel reforms of the Companies Act, which the Minister alluded to in the budget speech.

Zambia has progressively strengthened its beneficial ownership disclosure rules, notably through the Companies (Amendment) Act of 2020, which established a beneficial ownership register and defined "substantial interest" at a 5% threshold to align with international standards. Therefore, this measure should be seen as part of a broader, coordinated strategy. Planned amendments to the Companies Act will ensure the availability of beneficial ownership information, while the proposed amendment to the Income Tax Act strengthens the legal framework for the exchange of that information with treaty partners, thus fulfilling Zambia's international obligations.

7.1.13 Remove penalties for voluntary disclosure.

Commentary

This is a very welcome move designed to encourage taxpayers to come forward and correct past errors without the fear of punitive penalties. This aligns with international best practices, as promoted by the OECD, which encourage the use of formal Voluntary Disclosure Programmes (VDPs) as a pathway to compliance. Such programmes are a common tool in modern tax administration to foster a culture of voluntary compliance over purely enforcement-led approaches. They provide an opportunity for taxpayers to regularise their affairs, often in exchange for reduced penalties and protection from prosecution, on the condition that the disclosure is made before an investigation is initiated. To maximise its effectiveness, this principle should be extended to all tax types as part of a formal, permanent VDP integrated within a broader Tax Administration Act. This would provide legal certainty for taxpayers.

7.1.14 Introduce the Anti-Fragmentation Rule.

Commentary

This is a direct adoption of a key recommendation from the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project's Action 7, which targets the artificial avoidance of a Permanent Establishment (PE). The anti-fragmentation rule specifically counters strategies where a Multinational Enterprise (MNE) splits a cohesive business into several smaller, supposedly "preparatory or auxiliary" activities to avoid creating a taxable presence. By requiring that these fragmented activities be aggregated and assessed as a whole, Zambia is equipping its tax authority with a modern, internationally recognised tool to protect its tax base. The anti-fragmentation rule strengthens the PE definition, making it a more robust tool for Zambia to assert its taxing rights over economic activities occurring within its borders and safeguarding the domestic tax base.

7.1.15 Exempt Private Funds from Income Tax.

Commentary

This measure represents a significant policy shift designed to stimulate Zambia's capital markets. It amends the exemption provided under Paragraph 5(1)(l) of the Second Schedule to the Income Tax Act. Currently, the income of an approved collective investment scheme or private fund is exempt from tax only "to the extent to which the income is distributed to participants." This means any income retained by the fund for reinvestment is subject to Corporate Income Tax. The proposed change will exempt all income earned by a private fund, including retained earnings. This makes the fund a completely tax-neutral vehicle, allowing it to accumulate and reinvest capital without tax leakage at the fund level. The tax implications are shifted entirely to the investors, who will be taxed upon receiving distributions or upon disposing of their interest in the fund. This aligns Zambia with international best practices for investment funds, which aim to avoid double taxation (at both the fund and investor level) and thereby encourages the pooling of capital for investment in local businesses.

7.1.15 Broaden the definition of "Commodity Royalty".

Commentary

This is a targeted anti-avoidance measure designed to strengthen the application of withholding tax on royalty financing arrangements under Section 82A(1) of the Income Tax Act. The Act defines a "commodity royalty" as a payment computed by reference to production or profit from a natural resource, paid in return for an upfront "purchase price." The royalty payment is subject to withholding tax, but the repayment of the purchase price is not. This structure creates a risk that financing arrangements, which are in substance profit-sharing or debt, could be disguised as commodity royalties to avoid tax. The budget proposal specifically seeks to broaden the definition to capture arrangements where no purchase price was paid, or where payments to shareholders (which should be treated as dividends from post-tax profits) are characterised as commodity royalties. This

amendment ensures that the substance of a financial arrangement is taxed appropriately, preventing the erosion of the tax base through the mischaracterisation of payments related to Zambia's natural resources.

8.2 Property Transfer Tax (PTT) Measures

8.2.1 Limit the types of surrender or forfeiture that are exempt for Property Transfer Tax purposes.

Commentary

This measure is intended to curb tax avoidance by resolving a significant ambiguity between the Property Transfer Tax (PTT) Act, the Companies Act, and administrative practice regarding the tax treatment of share surrenders and forfeitures. Currently, Section 6(1)(h) of the PTT Act broadly exempts any share "surrender or forfeiture, where there is no consideration." However, this has created confusion. The ZRA's administrative guidance (Practice Note No. 1 of 2022) narrows this exemption significantly by applying the strict criteria for a forfeiture under the Companies Act (i.e., shares are not paid up, and a call for payment has been made and failed) to surrenders as well. This interpretation contradicts the common law understanding of a surrender, which can be a simple return of shares to the company, with or without consideration, and is not necessarily linked to unpaid calls.

The proposed measure to limit the types of exempt transactions is possibly a move to codify a stricter interpretation into tax law. It aims to close a perceived loophole where fully paid-up shares could be surrendered without consideration to avoid PTT on what is effectively a transfer of value back to the company (akin to a share buy-back). This provides legal certainty for the ZRA but restricts a potential tax planning avenue for companies, ensuring that only genuine forfeitures for non-payment are exempt from PTT. We note however that full clarity may be impossible without related changes to the provisions in the Companies Act.

8.2.2 Extend the relief applicable to group reorganisation under Section 5(2)(A) of the Property Transfer Tax Act to cases that result in change of shareholding with respect to a company incorporated in Zambia, where companies involved in the transfer have been part of the group for three years or more, preceding the transfer.

Commentary

This measure is a significant and necessary reform that corrects a critical anomaly within the Property Transfer Tax (PTT) Act, thereby facilitating genuine and commercially necessary corporate reorganisations. Current legislation, specifically the 2022 amendment to Section 5(2B) of the PTT Act, created an inconsistent and problematic situation for multinational groups. The relief from PTT was granted only to changes at indirect shareholder level.

A direct transfer of shares in a Zambian company from one non-resident group company to another did not qualify for the relief and would trigger a PTT liability, as it constituted a

direct change in the Zambian company's shareholding; however, an indirect transfer (e.g., the ultimate parent company selling a foreign subsidiary which, in turn, held the Zambian company's shares) could benefit from the relief, as the direct shareholding in the Zambian company remained unchanged. This inconsistency penalised straightforward internal restructuring while inadvertently providing relief for more complex, indirect transfers. The proposed 2026 amendment corrects this anomaly by explicitly extending the PTT relief to group reorganisations that result in a change of the direct shareholder of a Zambian company. To prevent abuse, the key safeguard is retained: the relief only applies if the selling company has been a member of the group for three or more years preceding the transfer. This ensures the provision is used for legitimate internal reorganisations and not for facilitating tax-free sales to external parties. By harmonising the treatment of direct and indirect transfers, this measure removes a significant tax barrier to efficient corporate restructuring and aligns Zambia's tax policy more closely with international best practices.

8.3 Value Added Tax (VAT) Measures

Revenue Concession Measures

These measures are designed to provide tax relief, encourage investment, and ease financial burdens on specific entities and projects.

8.3.1 Extend the "intending trader" period for VAT purposes from the current 7 years to 10 years for businesses in the hydro-electricity generation subsector.

Commentary

An "intending trader" is a business that is not yet making taxable supplies but is incurring costs (and therefore input VAT) in preparation for future trading. This provision allows such businesses to register for VAT and reclaim the input VAT they incur on setup costs during this preparatory phase. The extension to 10 years is a significant concession that acknowledges the long gestation period of large-scale hydro-electricity projects. These projects involve substantial upfront capital investment in construction, machinery, and services over many years before the plant becomes operational and starts generating revenue (taxable supplies). By allowing these businesses to claim input VAT for a longer period, the government is effectively reducing the cost of investment and improving the project's cash flow from the outset. This measure is clearly aimed at attracting more significant and long-term investment into the renewable energy sector, aligning with national goals for energy security and sustainability.

8.3.2 Change the VAT status of mains water supplied by water utility companies from exempt to zero-rated.

Commentary

When a supply is exempt, the supplier (the water utility company) does not charge VAT on its sales. However, it also cannot reclaim any input VAT paid on its business expenses

(e.g., water treatment chemicals, pipes, energy, technical services, administrative costs). This unclaimable VAT becomes a direct cost to the business, which is often passed on to consumers through higher tariffs. The proposed zero-rating ensures that whilst the supplier still does not charge VAT to the consumer (the rate is 0%), it is entitled to reclaim all the input VAT it has paid on its operational costs.

This is a crucial and beneficial change for water utility companies. By allowing them to reclaim input VAT, their operational costs will decrease, and it will improve the financial viability and sustainability of these utilities, freeing up funds for reinvestment into infrastructure maintenance and expansion. For the consumer, this reduction in the utility's cost base should, in principle, alleviate upward pressure on water tariffs, making water more affordable.

8.3.3 To zero-rate the supply of goods and services to government projects that are financed by loans.

Commentary

Currently, a distinction is made between government projects funded by donors (which are zero-rated) and those funded by loans (which are standard rated at 16%). When a project is standard rated, the government, as the final consumer, effectively pays the VAT, which increases the total project cost. This VAT amount then needs to be financed by the loan, increasing the country's debt and interest burden, or paid from other government revenues, straining the treasury. This measure aims to harmonize the treatment of all externally financed government projects and, more importantly, to improve government cash flow.

8.3.4 Codification of Arrest Procedures under the Customs and Excise Act

Commentary

The existing Customs and Excise Act contains a notable legal lacuna: it grants officers general powers but lacks clear, specific procedural guidance for effecting an arrest when a suspected offence occurs. This ambiguity creates legal uncertainty for ZRA officers and potential vulnerabilities for the state in cases of legal challenge. The proposed measure seeks to rectify this by providing clear procedural guidance and aligning the Act with established arrest and warrant procedures. This alignment will almost certainly involve incorporating the principles and procedures outlined in Zambia's Criminal Procedure Code Act, which governs arrest by police officers.

For the ZRA, this measure provides a clear legal mandate and a defensible procedural framework for its customs officers. It removes operational ambiguity and empowers them to act with greater confidence and authority during enforcement actions at ports of entry, bonded warehouses, and during post-clearance investigations. For individuals and businesses, the impact is more direct and severe. Suspects in customs related offences such as smuggling, under-declaration, or misclassification will now face the immediate

prospect of arrest by ZRA officers themselves, rather than the ZRA needing to involve the Zambia Police Service. The delegation of arrest powers to a revenue agency, whose primary institutional culture and training are focused on revenue collection rather than criminal justice, presents several profound risks.

- First is the risk of abuse and overreach. Arrest is a significant deprivation of liberty and is governed by strict legal standards to prevent its use for intimidation or coercion. There is a tangible risk that the threat of arrest could be leveraged by officers to compel importers to accept disputed customs valuations or classifications, effectively transforming a civil tax dispute into a criminal matter to gain leverage.
- Second, this measure necessitates extensive training and robust oversight. ZRA officers will require comprehensive education on the legal thresholds for "reasonable suspicion," the correct procedures for making an arrest, the preservation of evidence, and, crucially, the constitutional and statutory rights of the accused. Without this, the ZRA exposes itself to significant legal and financial liability for wrongful arrest, unlawful detention, and procedural violations.
- Third, the measure dangerously blurs the line between civil and criminal liability. Tax law is predominantly a civil matter, with disputes resolved through administrative appeals and tribunals. Introducing the power of arrest at the administrative level creates a potential conflict between the ZRA's mandate of revenue maximization and the criminal justice system's core principles of protecting individual liberty and ensuring a fair trial. The institutional key performance indicators for a customs officer are centered on revenue targets, which are not always aligned with the public safety and due process considerations that guide police conduct. This creates a scenario where an importer, engaged in a legitimate dispute over the valuation of a shipment, could be arrested on suspicion of making a false declaration. This immediately shifts the power dynamic from a commercial disagreement to a criminal confrontation, pressuring the importer to concede to the ZRA's position simply to secure their release, irrespective of the legal merits of their case. This could deter legitimate trade and investment, as importers may factor in a significant risk premium for arbitrary detention, ultimately increasing costs for Zambian businesses and consumers.

8.3.5 Empowerment of the Commissioner General to Restrict Taxpayer Property and Bank Accounts

Commentary

The current enforcement framework for securing taxpayer assets is described by the government as fragmented and inefficient. To freeze a bank account or seize property, the ZRA must rely on external agencies, primarily the Drug Enforcement Commission (DEC) for seizures and the Financial Intelligence Centre (FIC) for account freezes. This multi-agency process, while providing inherent checks and balances, leads to substantial

delays that can allow non-compliant taxpayers to dissipate assets before they can be secured. The proposed measure seeks to streamline this process by granting the Commissioner-General the direct and unilateral power to issue Restraining Notices against a taxpayer's property and bank accounts.

This proposal should be transformative for the ZRA's enforcement capabilities. It would allow the authority to act with unprecedented speed, moving to secure assets it believes are at risk of being moved or hidden, thereby drastically improving its ability to collect on eventual tax assessments. For taxpayers, the impact is immediate and potentially catastrophic. A business or individual could find their bank accounts frozen and their property encumbered by a simple administrative notice from the ZRA, without any prior judicial review or court order. This action could instantly paralyze a business, preventing it from paying salaries, suppliers, and other creditors, and potentially triggering insolvency even if the underlying tax dispute is later resolved in the taxpayer's favor.

The concentration of such a powerful quasi-judicial function within an administrative, revenue-collecting body raises grave concerns. The primary risk is the lack of due process. The measure appears to circumvent the judiciary, granting an administrative official the power to effectively seize assets that are unrelated to importation, a function traditionally reserved for the courts. This raises significant constitutional questions regarding the separation of powers and the protection of property rights.

There is also a high potential for error and abuse. An erroneous administrative freeze, perhaps based on a flawed audit or a simple clerical error, could cripple a legitimate business beyond recovery. To mitigate this, the legal framework must provide for an immediate, accessible, and independent appeal mechanism. The burden of proof and legal action is shifted entirely onto the taxpayer, who must fight to reclaim access to their own assets *after* the fact.

This measure represents a significant centralization of power, bypassing the checks and balances inherent in the current multi-agency system. While the existing process may be inefficient, its very fragmentation provides a form of passive oversight, as the ZRA must justify its request to another agency (like the FIC or DEC) which operates under its own distinct legal mandate and thresholds. The proposed system replaces this with administrative expediency. The FIC's power to freeze an account, for instance, is typically for a short, statutorily defined period (e.g., 15 days) to allow for analysis before law enforcement is involved, and there is a clear judicial appeal process. The proposed ZRA power, as described, lacks these specified safeguards, creating a major source of legal and commercial risk. This could fundamentally alter the balance of power in tax disputes, compelling businesses to settle on unfavourable terms simply to maintain liquidity and operational survival, thereby undermining the right to a fair hearing.

8.3.6 Suspension of Tax Refunds for Taxpayers Under Investigation

Commentary

Under the current legal framework, a taxpayer's eligibility for a tax refund in one area (e.g., a VAT refund) is not affected by an ongoing investigation into another potential tax liability. The government perceives this as a loophole that undermines revenue protection, as a taxpayer under investigation could receive a substantial refund and then dissipate those funds before an adverse finding is made, frustrating future recovery efforts. The proposed measure aims to close this gap by empowering the Commissioner-General to suspend or withhold any tax refunds due to a taxpayer who is under investigation for any suspected offence under any tax act.

For the ZRA, this measure provides a powerful tool for revenue protection. It allows the authority to effectively use a taxpayer's own money (in the form of a due refund) as security against a potential, but as yet unproven, future liability. This significantly improves the ZRA's position in ensuring the collection of any taxes ultimately found to be due.

For taxpayers, particularly businesses in sectors that rely on regular refunds for working capital, the impact can be severe. A refund is not a government handout; it is the return of overpaid tax or the reimbursement of input VAT, which is legally the taxpayer's property. This measure allows for the indefinite withholding of these funds based merely on the initiation of an investigation, not on a confirmed assessment or judgment. This can create significant and unpredictable cash flow constraints, disrupting business planning and operations. This is against a backdrop of already significantly delayed refunds for businesses.

This measure is fraught with legal and economic risks that challenge fundamental principles of tax administration. It can be seen as a violation of the "presumption of innocence" that underpins the justice system. The measure effectively penalises a taxpayer by withholding their funds based on suspicion alone, before any wrongdoing has been established through the investigative and appeals process.

Should this measure be passed, a likely unfortunate event, there is need for government to specify a maximum duration for an investigation during which refunds can be withheld. A protracted investigation, whether due to complexity or administrative inefficiency, could result in a taxpayer's funds being frozen for years, causing irreparable financial harm to an otherwise viable business.

The measure also creates a risk of disproportionate impact. A minor investigation, for example, into a small discrepancy in PAYE withholdings, could be used as a justification to suspend a much larger and entirely unrelated VAT refund. This turns the measure into a punitive tool that is not proportional to the suspected offence.

This proposal weaponises the tax refund process, transforming it from a routine administrative function into a tool of coercive compliance. It fundamentally alters the nature of a tax investigation by imposing an immediate financial penalty, the withheld refund, at the very beginning of the process. A comparison with international best

practices, such as the U.S. Treasury Offset Program (TOP), is instructive. The TOP is used to offset tax refunds against confirmed, past-due debts owed to government agencies. It is a collection tool for established liabilities, not a mechanism to hold refunds hostage during an investigation into a potential liability.

The budget proposal deviates significantly from this principle of offsetting established debts. This could have a particularly chilling effect on key sectors of the Zambian economy, such as mining and non-traditional exports, which are vital for economic diversification but are also heavily reliant on timely VAT refunds to maintain liquidity and fund operations. If exporters perceive a high risk of their working capital being arbitrarily frozen due to a minor, unrelated tax query, it could discourage investment and undermine a key pillar of the government's own economic growth strategy.

8.3.7 Submission of Unresolved Tax Liabilities to the Credit Reference Bureau

Commentary

The confidentiality of taxpayer information, enshrined in the secrecy clauses of the ZRA Act, has historically prevented the ZRA from sharing data with third-party commercial entities. This has limited the ZRA's enforcement toolkit to direct actions against the taxpayer. This measure proposes a significant policy shift by amending these secrecy clauses to permit the targeted disclosure of unresolved tax debts to a Credit Reference Bureau. This would allow the ZRA to report tax non-compliance to the credit bureau.

For the ZRA, this represents a highly efficient, low-cost, and powerful new enforcement mechanism. The threat of a damaged credit rating, which can severely restrict a business's or individual's access to loans, trade credit, and other financial services, creates a compelling incentive to resolve tax liabilities promptly. It externalizes enforcement pressure, shifting it from the ZRA to the taxpayer's own banks and commercial partners.

For taxpayers, the implications are profound. An unresolved tax liability, even one that is being legitimately disputed through the formal appeals process, could be reported to a credit bureau, causing significant and immediate damage to their creditworthiness. This could lead to the recall of loans, an increase in the cost of capital, and a general loss of confidence from suppliers and customers, impacting the very viability of a business.

For the Credit Reference Bureau, this introduces a new and sensitive category of data. The bureau will need to develop robust systems and protocols to receive, verify, and incorporate ZRA data accurately and to handle disputes and corrections in accordance with the Credit Reporting Act.

The primary risk lies in the definition of an "unresolved tax liability." If this term is interpreted broadly to include liabilities that are under formal objection or appeal, the ZRA would be penalising a taxpayer for exercising their statutory right to challenge an assessment. This would undermine the fairness of the entire tax dispute resolution

system. The process for ensuring the swift removal of a negative listing once a dispute is resolved in the taxpayer's favor, or the debt is settled, must be seamless and effective to prevent lasting and undue harm.

There is also a risk of disproportionate consequences. A relatively small and disputed tax debt could trigger a negative credit report that has a disproportionately large impact on a company's ability to secure major financing or win a critical contract, creating a penalty far in excess of the original amount in question.

This approach could create a new form of systemic risk. If the ZRA's data reporting is flawed, as has been the case over the past few years with errors in TaxOnline reconciliations and accounts, or if a large number of businesses are suddenly reported due to a systemic issue or a change in ZRA policy, it could trigger a sudden credit contraction as banks react to the new negative information, potentially impacting even otherwise healthy and compliant businesses.

8.4 Adjustment of Mobile Money Levy Rates

Commentary

The proposal involves a substantial increase in the mobile money levy across all seven of its value-based tiers as a revenue raising measure. The proposed changes are not uniform across the board. For the lowest four tiers, covering transactions up to K1,000, the levy is set to double. For higher-value transactions, the increases are even more dramatic. The levy on transactions between K1,000 and K3,000 is set to increase by 150% (from K1.60 to K4.00), while the levy for the K3,000 to K5,000 band will increase by 275% (from K2.00 to K7.50). This structure suggests an attempt to extract significantly more revenue from the entire spectrum of mobile money users.

A core flaw in the levy's design is its inherently regressive nature. While the absolute levy amount increases with the transaction value, the levy as a percentage of the amount transferred is highest for the smallest transactions and decreases as the transaction value rises. This structure systematically penalises the poor.

For example, under the proposed rates:

- A K150 transaction incurs a K0.32 levy, which is **0.21%** of the transaction value.
- A K1,000 transaction incurs a K2.00 levy, which is **0.20%** of the transaction value.
- A K10,000 transaction incurs a K8.00 levy, which is only **0.08%** of the transaction value.

This design disproportionately burdens low-income individuals, who are transaction-intensive but value-poor. They typically make frequent, small-value payments for daily necessities, transport, and food. A low-income worker who needs to make ten separate K50 payments (totalling K500) would pay the K0.32 levy ten times, for a total cost of

K3.20. In contrast, a wealthier individual making a single K500 payment would pay the levy only once, at a cost of K0.80. The levy, therefore, extracts four times more in fees from the poorer user for the same total value transacted. This structural regressivity directly contradicts the government's stated aspiration to reduce income inequality as outlined in the Eighth National Development Plan. Furthermore, research consistently shows that existing transaction fees are already a significant barrier to the adoption and frequent use of digital financial services among rural and low-income populations in Zambia. Adding a government levy on top of these fees will only exacerbate this financial exclusion.

8.5 PROPOSED CHANGES TO THE INCENTIVE PRIORITY REGIME

8.5.1 Extend Energy Priority Sector Incentives to Transmission and Distribution of Electricity

Commentary

Zambia's economic development is intrinsically linked to the reliability and reach of its electricity supply. However, the country faces significant challenges with its power infrastructure, which is characterized by insufficient capacity, aging assets, and high transmission losses, frequently resulting in load shedding that hampers industrial productivity. While the electricity sector was liberalized in 1995, the state-owned utility, ZESCO, continues to own and operate the vast majority of the country's transmission and distribution network. This has been cited as a major impediment to private investment, as new power producers have limited and uncertain access to the grid to deliver electricity to customers.

Recognizing this, the government's Integrated Resource Plan (IRP) outlines a massive, long-term investment strategy for the power sector, including an 82% expansion of the transmission network by 2050, requiring an estimated USD 1.4 billion by 2030 alone. The current incentive framework, under Statutory Instrument No. 47 of 2023, designates electricity generation as a priority sector, granting customs duty relief on imported machinery and equipment for power stations. This creates a critical policy gap: incentivizing power generation such as renewables is ineffective if the infrastructure to transmit and distribute that power is inadequate. This proposed measure aims to close that gap by extending the same customs duty relief to projects focused on electricity transmission and distribution.

This measure is a strategic intervention designed to de-risk and encourage private investment in a critical segment of the energy value chain. For investors, the direct impact is a significant reduction in the capital expenditure required for transmission and distribution projects. By removing customs duties on essential imported equipment, such as high-voltage transformers, conductors, switchgear, and substation components, the measure lowers the upfront cost and improves the overall financial viability of these long-term infrastructure investments.

For the energy sector and the broader economy, the impact is potentially transformative. The incentive is expected to accelerate the modernisation and expansion of the national grid, helping to alleviate the transmission bottlenecks that currently constrain the power supply. A more robust and efficient grid will reduce technical losses, improve reliability, and is a prerequisite for integrating the new, large-scale renewable energy projects (particularly solar and wind) that are central to Zambia's energy diversification strategy. This, in turn, will enhance energy security and support the government's ambition to establish Zambia as a regional power trading hub.

9 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 2026 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.