

Zambia amends VAT legislation

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Following the announcement in Zambia's 2020 National Budget that the Government would not proceed with the introduction of the Sales Tax, the Zambian Minister of Finance (the Minister) indicated that changes would be made to the *Value Added Tax (VAT) Act* as part of broader reforms aimed at increasing tax revenue.

To achieve this objective, the Minister has now issued amendments to the VAT Regulations and Zero-Rating Order. The amendments were issued on 31 December 2019 through Statutory Instrument Nos. 88 and 90 of 2019, the VAT (Zero Rating) (Amendment) Order 2019 and the VAT (General) (Amendment) Regulations 2019.

The amendments are effective 1 January 2020.

Highlights

The VAT (Zero Rating) (Amendment) Order 2019 includes the following changes:

- ▶ Amends zero rates applicable for capital equipment and machinery for the mining sector and copper cathodes. The amended Order introduces new groups of items to be zero rated. This includes Copper cathodes under Group 10 (Minerals) and Group 11 (Capital Equipment). Further, the amended Order introduces a schedule specifically listing equipment and machinery (per Harmonized Schedule (HS) Code and Tariff Description) to be zero rated when supplied to taxable suppliers carrying out mining operations, mineral processing and exploration.
- ▶ Amends Group 7 (Energy Saving Appliances, Machinery and Equipment) of the Order to zero rate Liquefied Petroleum Gas (LPG) and appliances that use gas fuel.
- ▶ Amends Group 1 (Export of Goods) of the Order to remove ancillary services that are directly linked to the transit of goods through Zambia. This makes the supply of such services standard rated.

The VAT (General) (Amendment) Regulations 2019 includes the following changes:

- ▶ Removal of refund claims on consumables and spare parts except where they are stock in trade.
- ▶ The limitation on the claim of input VAT on diesel is set to 90% except:
 - Where the supply is for resale, 100% of the VAT charged may be claimed as input VAT; and
 - Where a taxable supplier is carrying on mining operations, mineral processing or exploration, only 70% of the VAT charged may be claimed.
- ▶ The limitation on the claim of input VAT on the supply of electricity reduced to 80% from 100% for mining companies.

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