

Zambia continues implementation of Sales Tax Bill

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Executive summary

Zambia's Sales Tax Bill of 2019 (the Bill) has been approved by the Cabinet and will be presented to Parliament for approval and public consultation. The proposed date of commencement is 1 July 2019.

The Sales Tax will replace the current *Value Added Tax (VAT) Act*.

Detailed discussion

Highlights

Under the Bill, Sales Tax will apply to the taxable supplies of good and services. Sales Tax will also apply to the taxable importation of goods and services into Zambia.

The rate of Tax is 9% for locally supplied goods and services and 16% for imported goods and services. The Minister is empowered to reduce the rate applicable to a taxable supply by Statutory Instrument.

The Bill retains most of the principles that applied under the *VAT Act* with respect to definitions of supplies, goods and services. It also largely retains the definitions of time of supply and place of supply. As with the current *VAT Act*, the return filing deadline remains the 18th of each month.

Definitions

A significant definition included in the Act is the “Taxable Value” of goods and services. Section 11 of the Bill defines the taxable value of manufactured goods sold to an independent party as the higher of the cost or factory price. For goods sold to related parties, the taxable value is the price at which those goods would be supplied to an independent person. For services, the taxable value is the price at which the services are provided and includes any related incidental costs. The Bill does not include any mechanism for crediting local manufacturers with the Sales Tax imposed on importation.

Exemption

The Bill empowers the Minister to provide exemptions to Sales Tax by means of Statutory Instrument for:

- ▶ Capital goods
- ▶ Inputs
- ▶ Designated basic and essential goods or services
- ▶ Designated suppliers to privileged persons
- ▶ Exports

Such exemptions may mitigate against the cascading of the effective tax rate given the definitions of taxable value above. The exemptions are likely to be announced as schedules and regulations to the Act prior to its effective date.

Other significant provisions

The Bill retains provisions for Withholding Agents as currently provided in the *VAT Act*. The challenges encountered by taxpayers with respect to withholding VAT may therefore continue.

Transitional arrangements will allow assessment of VAT and payment of refunds under the *Sales Tax Act*. It was earlier indicated that the tax authorities would seek to conclude audits and pay refunds prior to the introduction of Sales Tax. The transitional rules make this less likely.

Implications

Taxpayers have three months to prepare themselves for the new Sales Tax. This includes making the required changes to ERP systems and a review of supplier as well as customer contracts. Taxpayers should also review their pricing models to take into account possible additional costs arising from Sales Tax.

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