

HEPTA Advisory Services Limited
2027 Budget Submissions

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Executive Summary

This submission presents a consolidated set of tax and regulatory reform proposals aimed at strengthening Zambia's competitiveness, improving the investment climate, supporting formal sector growth and protecting the long-term tax base. The proposals focus on targeted reforms that remove distortions, align domestic rules with international principles and encourage private-sector participation in priority economic sectors.

The submission recommends VAT reforms to improve the treatment of carbon credits, business process outsourcing services, ancillary services for goods in transit and imported machinery supplied through resident original equipment manufacturers. These measures are intended to remove unrecoverable VAT costs, restore export competitiveness, encourage green investment, support digital services growth, improve logistics corridor performance and level the playing field between local suppliers and offshore providers.

The submission also proposes Income Tax Act amendments to modernise research and development incentives, improve the treatment of foreign currency movements on business financing and rationalise the deductibility of finance costs. These changes would help reduce investment risk, support innovation, lower the cost of doing business and provide clearer, more predictable tax treatment for capital-intensive and growth-oriented enterprises.

Further proposals address charitable donations and intra-group direct transfers. The charitable donations reform would broaden recognised giving channels while retaining revenue safeguards, enabling businesses to support grassroots public benefit projects more effectively. The intra-group transfer reform seeks to correct a drafting inconsistency in the Property Transfer Tax Act so that genuine internal reorganisations can proceed without unintended tax costs, while maintaining anti-avoidance protections.

Overall, the proposed reforms are designed to be fiscally responsible and administratively workable. They prioritise clarity, competitiveness and compliance safeguards, with the aim of broadening economic activity, attracting investment, supporting local enterprise and strengthening future tax collections through growth rather than through distortionary tax costs.

This submission sets out proposed tax and regulatory reforms intended to improve Zambia's investment climate, strengthen competitiveness, support local enterprise growth and protect the long-term tax base. Each proposal identifies the current challenge, the recommended reform, the expected economic impact and the key implementation safeguards.

Proposal Area	Description of Current Challenge	Proposed Reform/Measure	Expected Impact	Implementation Considerations
1. Taxation of Carbon Credits (Value Added Tax Act)	ZRA currently treats carbon credits as services for VAT purposes. Because carbon offset projects are physically located in Zambia, related transactions are treated as domestic supplies, so exported credits attract VAT at the standard rate of 16%. Most international buyers are non-resident and are not registered for VAT in Zambia, meaning they cannot recover this input VAT. This makes Zambian carbon credits 16% more expensive than credits from competing jurisdictions, including the UK and China, where exports are zero-rated under the destination principle. The result is a direct loss of price competitiveness	Amend the Value Added Tax Act so that carbon credits are expressly classified as “goods” rather than “services”. This would enable exported credits to qualify automatically for zero-rating at 0% VAT. As an alternative, the place-of-supply rules could be amended specifically for environmental instruments, so that carbon credits used by non-residents are treated as exported services.	Zero-rating would immediately remove the 16% tax burden for foreign buyers, enabling Zambian carbon credits to compete internationally. It would encourage private investment in large-scale reforestation, sustainable agriculture and renewable energy, generate local green employment, and increase foreign exchange inflows. In addition, recognising credits as “goods” would allow exports to qualify for preferential corporate tax rates, such as the 15% rate applicable to Non-Traditional Exports under the Income Tax Act.	The VAT Act should be amended to include “carbon credits” or “environmental instruments representing emissions reductions” within the statutory definition of goods, or to introduce specific place-of-supply provisions. Although zero-rating would reduce immediate VAT receipts from export transactions, it would support a broader economic base and strengthen long-term revenue through corporate income tax, payroll taxes and VAT from local supply chains.

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	and a potential deterrent to green investment.			
2. Research and Development Incentives (Income Tax Act)	Section 43 of the Income Tax Act restricts Research and Development (R&D) deductions to expenditure that is “not of a capital nature”. This prevents businesses from deducting essential capital costs, including specialist laboratory equipment, software development, patent registration and prototypes. The current provision also fails to recognise the resource-intensive “development” stage, where research is taken towards commercial application. In addition, the legislation does not define “research”, “experiments” or “development”, creating	Repeal and replace Section 43 of the Income Tax Act with a modern, comprehensive R&D incentive framework. The revised regime should allow deductions for capital expenditure directly connected with R&D and adopt clear international definitions, including those reflected in the OECD Frascati Manual. These definitions should cover basic research, applied research and experimental development across sectors such as ICT, services, manufacturing and agriculture. The framework should also introduce enhanced incentives, including R&D tax credits,	This reform would stimulate private-sector investment in innovation and help diversify the economy away from primary commodities. It would improve industrial productivity, support the commercialisation of local ideas, create high-value technical employment for Zambian engineers and researchers, and encourage international companies to establish R&D operations in Zambia.	The new framework should be simple, transparent and accessible so that SMEs can participate without excessive administrative costs. ZRA would need to issue clear public guidance and develop structures that support collaborative R&D projects between private industry, universities and national research institutions.

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	uncertainty in administration and costly disputes that particularly affect small and medium-sized enterprises.	accelerated depreciation or super-deductions that permit deductions above 100% of qualifying expenditure.		
3. Business Process Outsourcing (Value Added Tax Act)	BPO services supplied by Zambian operators to international clients are currently subject to VAT at the standard rate of 16%. Because the services are performed in Zambia, the current rules treat them as local supplies even where the client is located offshore. This effectively exports Zambia's domestic VAT cost, making Zambian BPO providers less competitive than providers in jurisdictions such as Kenya, South Africa, India and the Philippines, where exported services are zero-rated. The tax burden	Amend the VAT Act to expressly zero-rate BPO services supplied by Zambian-based entities to non-resident clients located outside Zambia at the time the services are consumed. This would align the domestic VAT framework with the internationally accepted destination principle, under which consumption taxes should be charged only in the jurisdiction where the services are actually consumed.	Zero-rating would immediately reduce service costs by 16%, making Zambian BPO services more competitive internationally. It would position Zambia as an attractive destination for foreign direct investment, enable local digital start-ups to scale, support the securing of international contracts, generate stable foreign exchange earnings and unlock thousands of customer service and IT-related jobs for young people.	As the current 16% VAT treatment makes the sector largely uncompetitive, ZRA collects little or no revenue from exported BPO services. Over time, the wider tax gains from corporate income tax paid by profitable BPO operators, PAYE collected from newly employed youth and increased domestic spending would outweigh any initial VAT revenue impact.

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	constrains local SME growth, limits youth employment opportunities and works against the objectives of the 8th National Development Plan.			
4. Foreign Currency Movements (Income Tax Act)	Large mining, energy and manufacturing projects often depend on substantial foreign-currency debt financing. Section 29A of the Income Tax Act expressly excludes foreign exchange gains or losses of a capital nature from tax computations. Although a narrow exception permits deductions for forex losses on loans used to construct commercial or industrial buildings, forex losses on loans used for essential operational capital, such as machinery, plant upgrades or	Amend Section 29A of the Income Tax Act to remove the general exclusion for forex movements of a capital nature where the financing is business-related. The amended provision should allow realised forex gains to be assessed and realised forex losses to be deducted in full on debt capital borrowed wholly and exclusively for business purposes or for the production of income, regardless of whether the asset acquired is capital or revenue in nature.	The reform would introduce greater structural fairness by aligning the tax treatment of forex movements with the treatment of interest costs. It would reduce the financial risk profile of large, multi-year projects by recognising the real economic cost of capital. This added predictability would encourage major investment in mining expansion, manufacturing plants and energy infrastructure, strengthening Zambia's regional investment position.	Implementation would require careful legislative drafting to define "debt capital employed wholly and exclusively for business purposes" and protect the tax base from artificial arrangements. ZRA should also issue clear accounting guidance on the timing, recognition and tracking of realised and unrealised forex movements, aligned with standard accounting practice.

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	technology assets, are not deductible. This creates an imbalance because interest on those same loans is deductible. Companies that must rely on foreign financing are therefore exposed to major exchange-rate shocks without tax relief on principal repayments.			
5. Taxation of Finance Costs (Income Tax Act)	Section 44(n) of the Income Tax Act prevents companies from deducting incidental costs incurred in raising finance, including bank arrangement fees, commitment fees and guarantee commissions. The provision was originally introduced as an anti-avoidance measure to prevent businesses from presenting non-deductible interest as other fees. However, the framework	Repeal Section 44(n) of the Income Tax Act in full. Removing this paragraph would allow ordinary and necessary commercial fees incurred in obtaining business finance to fall naturally within the wider definition of “interest” under Section 29(7) of the Act.	The repeal would modernise the tax code and reduce the overall cost of doing business and borrowing for Zambian enterprises. It would better reflect the matching principle in taxation by allowing companies to deduct necessary out-of-pocket costs incurred to obtain capital used to generate taxable income, supporting business expansion and employment creation.	Once Section 44(n) is repealed, incidental borrowing costs would remain subject to existing safeguards. Taxpayers would still need to demonstrate that the expenses were incurred wholly and exclusively for business purposes, and the costs would remain subject to the standard 30% EBITDA interest deductibility limitation.

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	has since evolved: Section 29(1A) now applies a strict business-purpose test, while Section 29(1B) limits gross interest deductions to 30% of EBITDA. Since Section 29(7) already includes financing fees within the definition of interest, retaining Section 44(n) creates an overlapping restriction that increases borrowing costs unnecessarily.			
6. Deductions for charitable donations (Income Tax Act)	Section 41 of the Income Tax Act restricts tax deductions for charitable donations to contributions made to entities that have received formal Ministerial approval as Public Benefit Organisations under the Tenth Schedule. This rigid arrangement excludes grassroots bodies such as	Introduce a dual-stream donations framework. Stream A would preserve the existing route under Section 41 for donations made to Ministerially approved Public Benefit Organisations. Stream B would establish a new “Qualified Direct Contribution” channel. This would permit	This reform would direct private-sector resources and Corporate Social Responsibility budgets towards urgent grassroots priorities, including local schools, clinics and hospitals. It would support a stronger culture of community giving and improve the speed of disaster relief responses. Because Stream B contributions would be	The burden of proof would rest with the taxpayer. To claim a deduction under the Qualified Direct Contribution stream, donors would be required to provide verifiable documentation, including an official stamped receipt from the public institution showing the

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	local public schools, community clinics and district councils, which may not have the legal resources or administrative capacity to obtain formal Public Benefit Organisation status. The dependence on individual Ministerial approvals also creates administrative bottlenecks and prevents businesses from offering swift, direct and spontaneous philanthropic support in response to urgent local needs.	tax deductions for direct monetary or in-kind donations to specified public entities, including registered government schools, public clinics, local authorities and registered co-operatives, where the donations are made for clearly defined and ring-fenced community infrastructure or public benefit projects.	combined with Stream A and remain subject to the existing cap of 15% of a taxpayer's assessable income, the reform would expand recognised giving channels without increasing the State's overall revenue exposure.	donor's TPIN, the itemised value of the donation and the specific project name. In-kind donations valued above ZMW 50,000 would require an independent valuation certificate from a ZRA-accredited valuer, while the standard audit penalties under Sections 100 and 102 would continue to apply to deter fraudulent claims.
7. Taxation of Intra-Group Direct Transfers (Property Transfer Tax)	Under Section 5(2B) of the Property Transfer Tax Act, ZRA may approve a nil value, resulting in a tax-free transfer, for internal corporate reorganisations where there is no ultimate change in the	Amend Section 5(2B) of the Property Transfer Tax Act by deleting the opening words "Despite subsection (2A)". Removing this phrase would separate the reorganisation relief from the narrow scope of	This targeted amendment would correct an illogical legislative inconsistency. It would ensure equal tax treatment for multinational groups regardless of how they hold their Zambian investments, enabling them to restructure direct	Anti-avoidance safeguards would remain in place. The ZRA Commissioner-General would retain full statutory authority to review, audit and approve group relief applications. Taxpayers would still be

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	beneficial shareholding of the Zambian company and where the entity has formed part of the group for at least three years. However, the opening wording “Despite subsection (2A)” ties the relief specifically to subsection (2A), which addresses only offshore share transfers involving indirect investments in Zambia. This drafting issue unintentionally prevents relief where a multinational group reorganises shares in a direct, locally resident Zambian company. Section 5(6) does not resolve the issue, as its relief applies only to local groups whose ultimate holding company is incorporated in Zambia. As a result, global groups face unfair Property	subsection (2A), allowing the tax-free reorganisation mechanism to operate independently as a general group relief provision.	local subsidiaries without incurring arbitrary Property Transfer Tax charges. The change would simplify corporate governance, remove an unnecessary barrier to foreign investment and materially improve investor confidence.	required to demonstrate that the transaction is a genuine internal reorganisation with no change in the underlying beneficial ownership, and the strict three-year group membership requirement would remain in force to prevent speculative tax avoidance.

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	Transfer Tax exposure for direct local share reorganisations.			
8. Zero-rating of ancillary services for goods in transit (Value Added Tax)	Statutory Instrument No. 88 of 2019 removed the zero-rating of ancillary services connected with goods in transit, applying VAT at the standard rate of 16% by reference to Zambia's physical place-of-supply rules. Non-resident principals, including foreign shippers, international mining companies and commodity traders, cannot register for VAT in Zambia. This turns the 16% VAT charge into an unrecoverable embedded cost rather than a pass-through tax. The impact is particularly severe for high-volume, low-margin transit goods such as copper, cobalt	Amend the Value Added Tax (Zero-Rating) Order to expressly zero-rate specified operational ancillary services performed under customs control and directly linked to goods in transit. The zero-rating framework should apply only to cargo handling, transshipment between modes of transport, electronic customs clearing declarations through ASYCUDA World, temporary customs-bonded storage and mandatory security escort services for high-value corridor shipments. This would create a targeted operational	Restoring zero-rating would remove tax friction and immediately improve Zambia's corridor competitiveness against regional alternatives. It would directly support the 8th National Development Plan objective of positioning Zambia as a competitive regional land-linked logistics hub and help capture the transit freight volumes required to support the national target of producing 3 million metric tonnes of copper annually by 2031. Regaining lost traffic would strengthen long-term Corporate Income Tax and PAYE collections from expanding local transport operators, offsetting the short-term VAT revenue forgone.	ZRA can rely on existing compliance safeguards to prevent domestic tax leakage. Zero-rating should be limited strictly to ancillary services supplied to non-resident clients or principals. Transit goods stored in customs-bonded warehouses should remain subject to strict separation protocols from domestic goods and should require prior ZRA authorisation. ASYCUDA World transit declarations should serve as the primary documentary evidence for zero-rating eligibility. The five-day transit timeline should be enforced through

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	and fertiliser. It also leaves Zambia as a structural outlier when compared with regional corridors in Tanzania, South Africa, Namibia and Angola, which zero-rate transit logistics. As a result, foreign principals are diverting freight away from Zambia towards zero-rated corridors such as Dar es Salaam, Walvis Bay and Lobito, creating a difficult operating environment for local logistics businesses and weakening Zambia's Corporate Income Tax and PAYE bases.	exception within the Zero-Rating Order without altering the general place-of-supply rules under Section 12 of the VAT Act.		automated matching of border entry and exit documentation.
9. VAT Deferment on Imported Capital Equipment Supplied by Resident OEMs	Deleted for confidentiality	Deleted for confidentiality	Deleted for confidentiality	Deleted for confidentiality