SALES TAX PARLIAMENTARY PRESENTATION

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START

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BACKGROUND TO VALUE ADDED TAX (VAT) IN ZAMBIA

VAT is an indirect tax which was introduced in Zambia on 1st July 1995 to replace sales tax. VAT is largely invoice based and therefore uniform and uncomplicated, offering a sound financial management system with less collection weaknesses.

VAT in Zambia is administered under the Domestic Taxes Division of Zambia Revenue Authority (ZRA). The primary Law relating to VAT is contained in the Value Added Tax Act Chapter 331 of the Laws of Zambia. The subsidiary legislation comprises General Regulations made by the Minister through Statutory Instruments and Administrative Rules made by the Commissioner General through Gazette Notices.

VAT is a consumption-based tax that is levied in the supply chain at each point were value is added to a good or service. It is incurred by the final person in the chain of supply. Other persons in the value chain will claim back input VAT incurred in the course of their business, and remit to Zambia Revenue Authority (ZRA), the output VAT. One of the key advantages of VAT is that it has a **self-policing mechanism**: everyone in the supply chain has an incentive to act as tax-collectors as they offset the VAT, they pay their suppliers against the VAT they charge their customers.

Government abolished the Value Added Tax (VAT) and replaced it with a simpler and non- refundable Sales Tax to be implemented in July 2019. The initial implementation deadline was April 2019 as announced in the 2019 budget presentation. This change was prompted because the country lost revenue through VAT refunds; especially suspected fraudulent claims and multiple claims.

Sales Tax is a non-refundable consumption tax imposed by the government on the sale of goods and services. Zambia is not the first country to introduce the sales tax as other countries such as Malaysia and Canada recently turned to sales tax.

Depending on how the sales tax is implemented it can bring about the **cascading tax effect** meaning that the consumer of the good has to bear the load of tax and the inflationary prices that result from the effect.

INCENTIVES FOR VAT

1. Less collection weaknesses due to the already established mechanisms making easy to monitor compliance

2. Self-managing approach to implementation, which works well in light of the limited capacity of ZRA

3. Has the ability to promote strong home manufacturing industry and competitive export prices

4. Has a wider tax base shared across all sectors of the business community that leads to higher revenue collection?

DISINCENTIVES FOR VAT

1. Huge VAT refunds from zero rating of exports and negative trade balance.

INCENTIVES FOR THE PROPOSED SALES TAX

1. Simple to tax payers e. g application of rate to the sale value
2. Reduced administrative costs for ZRA/government.

DISINCENTIVES FOR SALES TAX

1. Estimated increases in cost of production for exporters there by increasing the cost of doing business in Zambia
2. Likelihood of an increase in domestic consumer prices leading to an increased cost of living
3. Higher likelihood of tax evasion in comparison to VAT which has a more effective self-managing/policing mechanism

COMPARISONS BETWEEN VAT AND SALES TAX - AS COMPILED BY KPMG, 2018

KPMG

SALES TAX Vs. VAT

COMPARISON	SALES TAX	VAT
Meaning	Tax charged on the total value of the commodity when the sale takes place	VAT is a tax charged at each level of the production and distribution chain whenever value is added to the product
Nature	Single point tax	Multi point tax
Levied on	Total value	Value added
Account Maintenance	Requires less effort because it is simple and easy to calculate	Proper accounts should be maintained as it is comprehensive and complex to calculate
Tax burden	Falls on the consumer	Rationalised
Input tax credit	Unavailable	Available
Impact on Business	• Tax on tax • Increased cost • Negative on Manufacturing	• No tax on tax • Lower costs • Encourages manufacturing

Government may need to try all other possible avenues to improve VAT tax compliance to improve revenue and further

ISSUES IN THE SALES TAX BILL

1. **Issuance of tax invoice:** The emphasis on the use of fiscal electronic devices in the issuance of tax invoices is a welcome move to maximize revenue collection (by ensuring compliance with the Act and reducing tax evasion).

2. **Accounts and record keeping:** The emphasis on a taxable supplier keeping complete and updated records is a welcome move but the penalty for failure to keep complete records should be increased from fifty thousand penalty units or imprisonment for a term not exceeding six months to improve compliance with the Act and boost revenue collection (which currently stands at 17-18 percent of the Gross Domestic Product).

3. **Recording of Daily supply:** The penalty for failure to record a daily supply by respective suppliers of three hundred thousand penalty units or to imprisonment for a term not exceeding three (3) years or both should be increased to five (5) years to deter would be offenders.

4. **Rate of tax at nine (9) and sixteen (16) percent for locally produced and imported goods respectively:** Sales tax can create higher tax revenues compared to a single stage tax, because tax is imposed on top of tax.

The tables below illustrate the cascading effect of sales taxation.

Table 1: VAT on the Maize value chain

		INPUT VAT	OUTPUT VAT	FINALVAT
FARMER - SELLING PRICE OF MAIZE (50 KGs)	ZMK80.00	-	ZMK7.20	ZMK7.20
MILLER - SELLING PRICE OF MEALIE MEAL	ZMK100.00	ZMK7.20	ZMK9.00	ZMK1.80
RESTAURANT - SALES FROM NSHIMA (MAIZE MEAL PULP)	ZMK150.00	ZMK9.00	ZMK13.50	ZMK4.50
	Total Tax collection by Government			**ZMK13.50**

Table 2: Sales Tax on the Final good (Mealie-meal) in the Maize value chain

		SALES TAX
SALES FROM NSHIMA (MAIZE MEAL PULP)	ZMK150	ZMK13.50
Total Tax collection by Government		**ZMK13.50**

Table 3: Sales Tax on the Maize value chain

		SALES TAX
FARMER - SELLING PRICE OF MAIZE (50 KGs)	ZMK80.00	ZMK7.20
MILLER - SELLING PRICE OF MEALIE MEAL	ZMK100.00	ZMK9.00
RESTAURANT - SALES FROM NSHIMA (MAIZE MEAL PULP)	ZMK150.00	ZMK13.50
TOTAL TAX COLLECTION	***Total Tax collection by Government***	**ZMK29.70**

Countries with cascade tax struggle with being competitive in the international markets. This is because the resulting inflationary prices stifle the availability of cheap labour and other factors of production, forcing market prices to be above international prices.

However, in the bill, the Minister, by statutory instrument , may prescribe lower rate of tax in respect of taxable supply; due consideration should be given to essential consumable goods such as staple food.

LESSONS LEARNT FROM BEST PRACTICE

In Canada, sales tax is applied in three different ways: at the federal level through the Value-added Goods and Services Tax (GST); at the provincial level, the Provincial Sales Tax (PST) levied by the provinces, sometimes called the retail sales tax; or the value-added Harmonized Sales Tax (HST), a single blended combination of the GST and PST. The Harmonized Sales Tax is collected by the Canada Revenue Agency, which then remits the appropriate amounts to the participating provinces. **The rates vary by province and territory, as do the goods and services on which the tax is applied and the way the tax is applied.**

Every province except Alberta has implemented either a Provincial Sales Tax or the Harmonized Sales Tax. The federal GST rate is 5%, which became effective on January 1, 2008.The territories of Yukon, Northwest Territories and Nunavut have no territorial sales taxes, which means only the GST is collected in the territories. These three northern jurisdictions are heavily subsidized by the federal government, and their residents receive some additional tax concessions due to the high cost of living in the north.

LESSONS LEARNT FROM BEST PRACTICE

All around the world, GST has the same concept. In some countries, VAT is the substitute for GST, but conceptually it is a destination-based tax on consumption of goods and services. **But perhaps the most contentious issue that still needs to be resolved among the different governance in the world is the GST rate**. Some are still struggling to rationalize an adopted rate structure.

Similar to Indian context, it is only Canada that has the concept of dual GST. **While there was strong rebellion at the time of introduction of GST by the then political division in Canada, however, GST sustained despite the opposition.** Even for the subsistence, the Government of Canada has been pragmatic and worked towards reducing the GST rate a couple of times post implementation. **While some others have had to increase the rates very soon after introduction.**

COUNTRY	Rate of GST/HST/VAT
CANADA	Ranges from 13% to 15%
FRANCE	Standard rate: 20%, Reduced rate: 5.5% & 10%
UK	Standard rate: 20%, Reduced rate: 5%
NEW ZEALAND	Peak rate: 15%
MALAYSIA	6%
SINGAPORE	7%
INDIA	Indicative rate may range from 12% to 20%

Source:*https://www.financialexpress.com/economy/gst-lessons-from-countries-that-have-implemented-the-goods-and-services-tax/331289/*

It is imperative that a reasonable rate structure is adopted to ensure the success of GST.

Another aspect encountered and accepted by most of the GST countries lies in the statistic that GST will be inflationary, especially if the effective tax rate is higher than what prevailed before. For instance, Singapore saw a spike in inflation in 1994 when it introduced the GST. **That makes it all the more important for administrators to keep tabs on how prices move after imposition of the tax. Malaysia, to an extent, was able to mitigate this risk through price control on account of the GST which was administered by the Ministry of Domestic Trade and Consumer Affairs**.

Another key refresh from Malaysia learning is that businesses need to start early with the implementation process to be GST-ready. **The Malaysian Government received strong resentment even after providing 1.5 years for GST preparedness.** Given the complex GST model that was proposed in India and the need for businesses to undergo a transformation to adapt to the GST regime, it was a challenge for the Indian government to tackle the task of requiring businesses to implement GST in less than 9 months effective 1st April 2017.

One constructive **learning that did come handy in the GST preparation in Malaysia was the release of sector specific guidance paper(s) on tax treatment concerning each business sector**. It aided in addressing the tax issues associated with a particular business segment. The Zambian legislative bodies could look into similar publications to effectuate the implementation of GST in a smooth way.

Lessons from other countries indicate that many big businesses have either failed or struggled to achieve IT transformation for having not planned or started early. It would be a mistake to assume that IT software with GST capability from other countries may be adopted wholesale in Zambia, due to peculiarities embedded in foreign GST models.

Some post-implementation truths from the GST in Malaysia includes wide-spread unrest and anti-GST street protests by small & medium businesses in Kuala Lumpur for few months after implementation even with a simpler systemic requirements and much higher level of exemption threshold.

CONCLUSION

With advance planning and extending adequate time to industry, continued dialogues between businesses and administrators, engaging with industry on the implementation planning, a reasonable tax-rate, timely release of the legislative documents, can prove to aid in smooth GST implementation in Zambia. Of course, GST is proven to be an efficient tax collection system despite teething problems in the initial implementation period.

Government also need to be wary of the contestations that surround the issue of sales tax rate in many different countries in the world. There are suggestions to impose different tax rate on goods and services through each stages of transaction. Alternatively, key lessons can be picked from Malaysia who relied on sector specific guidance paper(s) on tax treatment concerning each business sector.

RECOMMENDATIONS

Government need to provide detailed **transition framework [schedule(s)] for Sales tax on the following**:

1. Range of services and goods that will be subjected tax exempt and zero rated under new sales tax

2. Businesses' accounting and finance software needs during the transition and going-forward

3. The Government need to review the performance of Sales Tax after one year of implementation. Particular emphasis should give to the impact on the general price levels.

4. Increased awareness to prevent misunderstanding which can lead to wide-spread unrest and anti-GST protests as witnessed in countries such as Malaysia.

5. Consider developing specific guidance paper(s) on tax treatment concerning each business sector.

6. The Government can consider keeping the VAT taxation regime by making Mining sector VAT exempt since Government was having issues largely with tax refunds in the mining sector.

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