ZAMBIA REVENUE AUTHORITY
My Tax Your Tax Our Destiny

AN INTRODUCTION TO INCOME TAX

WHAT IS INCOME TAX?

Income tax is tax on profits made by Limited Companies, Partnerships and Self-Employed individuals as well as on emoluments earned by employees. All profit-making persons have an obligation to register and pay Income tax on their profits. Similarly, all individuals in employment have an obligation under the Income Tax Act to pay tax on their emoluments.

WHAT CONSTITUTES INCOME?

For tax purposes, Income constitutes the following:

- gains or profits from any business for whatever period of time carried on; e.g. (profits from business sales, construction, interest from financial services, management and consultancy fees etc.)
- emoluments; e.g. (salaries, wages, allowances etc.)
- annuities;
- dividends;
- interest, charges and discounts;
- royalties, premiums or any like consideration for the use or occupation of any property;
- income from the letting of property; and
- the income as further classified in the First Schedule.

(As amended by Acts No. 23 of 1968, 12 of 1982 and 14 of 1987)

Note: Effective 1st January 2023, Income from the letting of property is now taxed under rental income tax.

WHO SHOULD REGISTER FOR INCOME TAX?

- Individuals and limited companies whose yearly gross income or turnover is above K5,000,000.00.
- However, there are other business forms, for example management and consultancies, approved Public Benefit Organizations, partnerships and mining operations which shall register for income tax regardless of their annual turnover.

HOW DOES ONE REGISTER FOR INCOME TAX?

Eligible taxpayers should register for income tax through the Zambia Revenue Authority (ZRA) web-portal on **www.zra.org.zm**. Once logged in, the following steps should be followed:

- ➢ Click on ***Registrations***
- ➢ Selection ***Tax Type Amendment***
- ➢ Respond Yes to the question ***Are you adding business activities?***
- ➢ Enter the auxiliary business activity and date of commencement as well as necessary business assets
- ➢ Enter the estimated annual turnover (K5,000,000 and above)
- ➢ Click Submit ***(a reference number will be generated subject to approval).***

WHAT IS THE APPLICABLE TAX RATE FOR INCOME TAX?

The applicable income tax rates differ from sector to sector and range from zero (0%) to thirty-five (35%). For further and specific information specific to the nature of business refer to the tax rates table in the published **practice notes.**

WHAT TYPES OF RETURNS ARE SUBMITTED UNDER INCOME TAX?

There are two types of income tax returns. These are provisional return and annual income tax return.

Provisional return

Under this tax regime (company tax or self-employed businesses) taxpayers are required to submit a provisional return based on the estimates or projections of their annual income of a given charge year and these are computed in accordance with the applicable tax rates for that charge year.

Annual return

The annual tax return is also submitted under this tax regime. This is a self-assessed statement of business income whose information is obtained from the business records for that charge year.

WHEN IS THE PROVISIONAL TAX RETURN DUE AND PAYMENTS PAYABLE?

The Provisional return is due on or before the 31st March of the current charge year.
Provisional Tax is due and payable on the following dates in the charge year:

1st instalment – 31st March, payable by 10th April
2nd instalment – 30th June, payable by 10th July
3rd instalment – 30th September, payable by 10th October
4th instalment – 31st December, payable by 10th January

CAN A PROVISIONAL RETURN OR ANNUAL RETURN BE AMENDED?

Yes. The tax return can be amended as many times as necessary to reflect the changes in the business circumstances. If, during the charge year, it is found that the previously submitted provisional income tax return is likely to be significantly different from what was projected due to to changes in business environment, the return can be amended. The affected persons must submit a revised provisional income tax return, and any changes to the estimated tax payable will be adjusted in the next instalment following the submission of the revised return.

WHAT ARE THE APPLICABLE PENALTIES FOR LATE SUBMISSION OF RETURNS?

Where a person or business fails to submit a return on or before the date provided for, there shall be charged a penalty of 1,000 penalty units (K400) per month or part thereof in the case of an individual and 2000 penalty units(K800) per month or part thereof in the case of a company. (A penalty unit is equal to K0.40 or 40 Ngwee)

ARE THERE PENALTIES FOR UNDERESTIMATING INCOME?

Where upon receipt of a return of income pursuant to section *forty-six (46)*, it is discovered that income has been so understated that the tax on the return has been underpaid by at least one-third, then such person shall be liable to a penalty under this section calculated at the rate of twenty-five percent (25%) of the tax which has been underpaid.

WHEN ARE THE ANNUAL RETURNS DUE AND PAYMENT PAYABLE?

Annual Income Tax returns and payments are to be submitted and paid by 21st June following the year under review.

Note: A return should be accompanied by Form ITF56A or ITF56B which is found on the last page of the tax return. This is a certificate that confirms that the accounts include all the transactions of a business and present a true and fair view of the gains or profits from such business for the period submitted.

TAXATION OF BUSINESS PROFITS

Part IV (Sections 29 to 44) of the Income Tax Act provides guidance on what items of expenditure are allowed to be deducted in ascertaining the taxable business profits. Generally, the Income Tax Act allows as a deduction of the following: -

a) Expenditure incurred wholly and exclusively for the purposes of the business (Section 29)
b) Revenue and not capital expenditure (Section 29)
c) Losses brought forward from the same income source, provided that a loss can only be carried forward for a period of five years (Section 30)
d) Capital allowances, Investment allowances and Development allowances (Section 33 and 34)
e) Approved fund deductions (Section 37)
f) Payments in respect of technical education (Section 38)
g) Subscriptions to professional bodies of knowledge relevant to the business (Section 39)
h) Donations to approved public benefit organizations (Section 41)
i) Revenue expenditure on Research (Section 43)
j) Deductions for bad and doubtful debt and deduction for employing a differently

abled person (Section 43A and Section 43D)

k) A deduction shall be allowed in ascertaining the gains or profits of a business of any levy payable or paid for a charge year in accordance with the provisions of the skills development levy Act 2016

Any other deductions as prescribed by Section 44.

The sufficient condition is that except for capital allowances, all these expenditures must not be capital in nature.

Note: However, there are expenses that are not deductible for tax purposes which will need to be added back when arriving at taxable profit.

Examples include:

- Expenses of entertainment in nature unless the business is in the entertainment industry
- Provision for depreciation
- Provision for doubtful debts
- Unrealised Exchange Losses
- any tax or penalty chargeable under this Act;
- any payment to a pension or superannuation fund or scheme or premium payable under any annuity contract, except such payments as are allowed under section thirty-seven;
- the cost incurred by an individual in the maintenance of himself, his family or establishment, or which is a domestic or personal expense;
- provision for a contingent employee cost that is not paid out to the employee in the charge year
- any expenditure incurred in the provision of a gift to any person consisting of an article incorporating a conspicuous advertisement for the donor the cost of which to the donor, taken together with the cost to him of any other such articles given by him to that person in the same charge year, does not exceed one hundred Kwacha (K100.00)

TAX COMPUTATION EXAMPLE

Gross sales from business:	**K6,000,000.00**
Cost of sales:	**(K4,000,000.00)**
Gross profit:	**K2,000,000.00**
Less expenses	
Salaries and Wages:	**K500,000.00**
Stationery:	**K100,000.00**
Staff entertainment	**K100,000.00**
Rents and utilities:	**K150,000.00**

Total expenses:	**(K850,000.00)**
Net profit:	**K1,150,00.00**
Add back disallowable expenses:	
Staff entertainment:	**K100,000.00**
Taxable income:	**K1,250,000.00**
Tax K1,250,000.00@ 30% applicable rate:	**K375,000.00**

Note: To give a summary, the computation of Income Tax is basically done by removing or subtracting allowable expenses for tax purposes from your revenue and subjecting the taxable income to 30% Income tax rate. However, not all businesses are subjected to 30% income tax rate e.g. For Agriculture Sector, the income tax rate is 10%. Refer to the Charging Schedule for other specific tax rates

Taxpayer Reminder

All taxpayers must ensure that their registered contact details such as, mobile phone numbers, email addresses, physical addresses, and other demographic information, are always accurate and up to date on their tax profiles. Maintaining current details ensures timely receipt of official communications, notices, and important tax-related updates from ZRA and supports effective compliance.

For more information contact:

Call Centre: 4111
Email: advice@zra.org.zm
Website: www.zra.org.zm