



# 2026 Budget Analysis

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# Part I - Analysis of 2025 Economic Performance

**Real Gross Domestic Product (GDP) expanded by 4.5% in the first quarter, accelerating to 5.2% in the second quarter.**

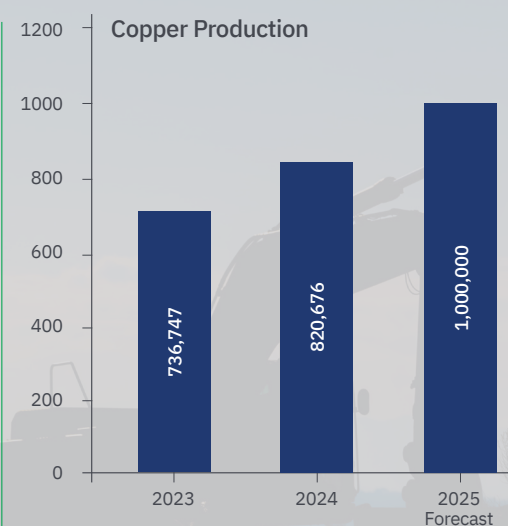
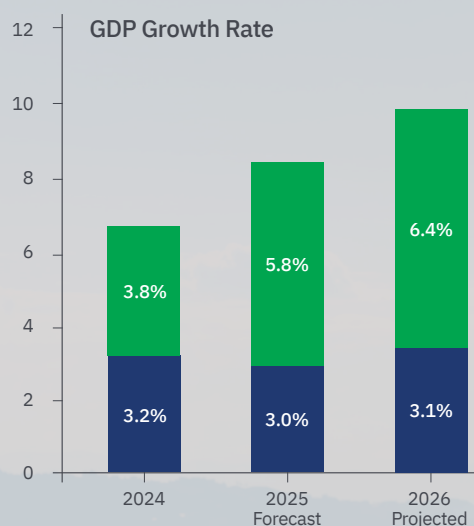
The Zambian economic performance in 2025 was characterised by robust economic recovery, marking a significant turnaround from the challenges of recent years. The dominant narrative of 2025 is one of accelerated growth and macroeconomic stabilisation. Real Gross Domestic Product (GDP) expanded by 4.5% in the first quarter, accelerating to 5.2% in the second quarter. Full-year projections from the International Monetary Fund (IMF) and the government point towards growth of 5.8% to 6.0%, the strongest performance in four years. This rebound is underpinned by strong recovery in the primary sectors. The agriculture sector, bouncing back from a severe drought in 2024, recorded extraordinary growth, while the mining sector, buoyed by substantial new investment and increased production, reasserted its role as the economy's bedrock.

This strong performance has yielded significant positive outcomes. Annual inflation has moderated consistently through the year, falling from a peak of 16.8% in February to 12.3% by September, driven by improved food supply and a strengthening currency. The Kwacha emerged as one of Africa's best-performing currencies, appreciating significantly against the US dollar, which helped to contain import-driven price pressures. On the fiscal front, the Zambia Revenue Authority (ZRA) surpassed its mid-year revenue collection target, a crucial step towards achieving the consolidation goals under the IMF's Extended Credit Facility (ECF) program. A landmark achievement in 2025 was the near

completion of the debt restructuring process, with 92% of agreements finalized, creating a path to fiscal sustainability. The external position has also strengthened, marked by a growing trade surplus, which reached K3.3 billion in August, and an increase in gross international reserves to \$4.7 billion by June 2025.

However, when assessed against the Eighth National Development Plan (8NDP)'s transformative agenda, this positive headline performance masks significant sectoral divergences and underlying structural fragilities. The economic rebound is highly concentrated in the primary sectors, while the industrial base, critical for long-term transformation, remains constrained. A severe national energy crisis, evidenced by a sharp 9.8% contraction in the electricity sector in the second quarter, has throttled the manufacturing industry, causing it to chronically underperform against the 8NDP's strategic growth targets. This exposes a fundamental weakness that threatens the sustainability of the recovery and the achievement of economic diversification.

In the context of the 8NDP's overarching theme of "Socio-economic Transformation for Improved Livelihoods," the 2025 performance represents a necessary but "work-in-progress" condition for success. While macroeconomic stability has been largely restored, the growth is driven by capital-intensive mining and a recovery in agriculture.



Source: 2026 Budget Address

# Performance Against the Pillars of the 8th National Development Plan

The 8NDP, covering the period 2022-2026, is Zambia's blueprint for achieving its Vision 2030 goal of becoming a prosperous middle-income nation. It is structured around four Strategic Development Areas (SDAs), or pillars, designed to drive "Socio-economic Transformation for Improved Livelihoods." An assessment of the 2025 economic performance against these pillars reveals a mixed picture of significant progress in some areas alongside persistent structural challenges in others.

## SDA 1: Economic Transformation and Job Creation

This is the central pillar of the 8NDP, aimed at fostering an "industrialised and diversified economy" by shifting resources from low to higher-productivity activities, creating jobs, and building resilience. The performance in 2025 shows a strong economic recovery but progress toward genuine economic transformation was tempered.

### Economic Growth and Diversification

The economy demonstrated remarkable resilience, expanding by 4.5% in Q1 and accelerating to 5.2% in Q2 2025. This strong start has bolstered confidence, with full-year projections converging on a highly optimistic outlook of 5.8% to 6.2%. If realized, this would be the nation's strongest economic performance in four years.

However, a deconstruction of the GDP data reveals a dualistic growth pattern that lags the 8NDP's diversification goals. The economic expansion was overwhelmingly driven by a V-shaped recovery in the primary sectors. The Agriculture, Forestry and Fishing sector grew by an extraordinary 74.4% in Q1 and 42.9% in Q2, a strong rebound from 2024. Similarly, the Mining and Quarrying sector expanded robustly by 16.5% in Q1 and 10.4% in Q2, reasserting its dominance. At current prices, mining (17.4%) and wholesale & retail trade (19.1%) were the largest contributors to GDP in Q2, while agriculture's share was a mere 1.8%.

The manufacturing sector's performance illustrates the sobering nature of the challenge. After growing by a 1.5% in 2023, the sector grew by 4.2% in the second quarter of 2025, moderately below the 8NDP's 5% annual growth target. The sector's contribution to Q2 growth (0.4 percentage points) was dwarfed by that of agriculture (1.9 percentage points) and the robust Information and Communication sector (2.3 percentage points).

### Fiscal and External Sector Performance

The economy's heavy reliance on mining is also reflected in its fiscal and external accounts. The ZRA exceeded its H1 2025 revenue target by K2.9 billion, a critical achievement for fiscal consolidation. However, this was driven by higher-than-expected collections from the booming mining sector, which masked underperformance in broad-based consumption taxes like VAT and excise duties.

This suggests that while the overall fiscal position is improving, its foundation has become narrower and more dependent on the volatile and price sensitive copper mining sector.

The nation's external position strengthened considerably, recording a trade surplus of K3.3 billion in August, powered by a 9.0% year-to-date increase in refined copper exports. This copper-fuelled surge strengthened the Kwacha and allowed



### Strong Growth

GDP up 4.5% Q1, 5.2% Q2; 2025 projected at 5.8 - 6.2%.



### Mining-Led Gains

Revenues +K2.9B; trade surplus K3.3B; reserves \$4.7B



### Jobs Lagging

Growth in mining & informal farming, limited formal jobs.



the Bank of Zambia to build its Gross International Reserves to \$4.7 billion by June 2025. While Non-Traditional Exports (NTEs) grew, an abrupt key 2025 tax measure increased the Corporate Income Tax on profits from these very exports from 15% to 20%, a policy move that could inadvertently hinder the diversification agenda.

### Job Creation

A critical limitation in assessing this pillar is the absence of a 2025 Labour Force Survey. Without this data, it is impossible

to measure the extent to which the economic recovery has translated into improved livelihoods through job creation.

The growth's concentration in capital-intensive mining and largely informal agriculture suggests the link to widespread formal employment may be weak, posing a significant challenge to the 8NDP's central theme.

## SDA 2: Human and Social Development

This pillar focuses on developing human capacities through investments in education and skills, health and nutrition, water and sanitation, and on reducing poverty, inequality, and vulnerability. The 2025 performance indicates positive macroeconomic conditions for human development, but direct evidence of progress is limited.

### Poverty and Inequality

The successful taming of inflation is a major achievement for this pillar. After peaking at 16.8% in February, the annual inflation rate fell consistently to 12.3% by September. This was driven by a sharp deceleration in food inflation to 14.6% in September, a direct result of the bumper agricultural harvest.

This moderation in food prices provides crucial relief to household budgets, protects purchasing power, and helps mitigate poverty. However, with national poverty and inequality data not yet available for 2025, the full impact on livelihoods remains unquantified.

### Health, Education, and Social Services

The government's ability to finance social services is improving. The ZRA's revenue over-performance provides greater fiscal space for investments in health, education, and social protection. The 2025 budget saw a 21.7% increase in allocations to the social sector (health, education, social protection and Water Sanitation and Hygiene - WASH) to K73 billion. The government has successfully expanded social protection programs, including free education, social cash transfers, food security packs, and school feeding initiatives.

However, with national poverty and inequality data not yet available for 2025, the full impact on livelihoods remains unquantified. The 8NDP sets clear goals, such as increasing net enrolment rates in primary and secondary schools and improving the pupil-teacher ratio, but 2025 progress reports on these specific metrics are not yet available. However, other available data suggests a significant increase in access to education and school enrolment.

## SDA 3: Environmental Sustainability

This pillar aims to ensure that development pathways are sustainable by promoting green growth, safeguarding natural resources, and building resilience to climate change. The events of 2024-2025 have starkly highlighted both the critical importance and the immense challenges of this pillar.

### Climate Resilience and Adaptation

The agricultural sector's dramatic swing from a devastating drought-induced contraction in 2024 to an astounding 74.4% growth in Q1 2025 is a powerful reminder of the economy's vulnerability to climate change. The 2025 bumper harvest underscores the potential of favourable weather, but it also highlights the urgent need for investment in climate-smart infrastructure, such as irrigation, to build resilience against future shocks, a key objective of the 8NDP.

### Energy and Green Growth

The national energy crisis is the most significant challenge under this pillar. The electricity sector contracted by 17.7% in Q1 and 9.8% in Q2 2025, acting as a direct brake on industrialisation and economic diversification. This deficit, estimated at 2.5 GW, is the single greatest threat to Zambia's long-term transformation.

In response, the government is pursuing reforms aligned with green growth principles, including a shift to cost-reflective tariffs to attract private investment into the energy sector, particularly in renewables. This move is essential for building a more resilient and sustainable energy mix, reducing dependence on hydropower, and meeting the 8NDP's environmental goals.

## SDA 4: Good Governance Environment

This pillar focuses on creating a conducive environment for development through a stable policy framework, adherence to the rule of law, transparency, and accountability. Performance in 2025 shows a mixed record of positive reforms alongside persistent administrative and policy challenges.

### Policy Framework and Partner Assessments

The government's adherence to the IMF supported ECF program demonstrates a commitment to disciplined macroeconomic management, which has been crucial in restoring investor confidence and stabilizing the economy. A landmark achievement in 2025 was the completion of 92% of the debt restructuring process, creating a clearer path towards long-term fiscal sustainability.

This commitment has been recognised by key international partners. At the close of its 2025 Article IV Consultation and completion of the Fifth Review Under the Extended Credit Facility with Zambia, the IMF Executive Board concluded that Zambia's program performance has been "broadly satisfactory" and that the overall economic outlook "remains positive". The Fund commended the government for the country's growth performance and progress on fiscal

consolidation, while recommending sustained, revenue-led fiscal consolidation and the maintenance of a tight monetary policy.

### Transparency and Accountability

The Ministry of Finance continues to set new benchmarks for transparency on economic reporting with regular public updates on monthly expenditure. Budget documents are reasonably transparent and fiscal information is available, however, the process of consultation on new fiscal legislation could be more comprehensive and deliberate. Coverage on fiscal risks from public entities is also an area that needs improvement. Despite the positive macroeconomic management, administrative weaknesses and policy consistency also remain significant challenges.

The reported failure of the Zambia Mining Cadastre (ZIMIS) online portal in 2025 disrupted the processing of licenses, highlighting a regulatory fragility that could deter future investment. Furthermore, the IMF has emphasized the need for sustained budget discipline, especially with the 2026 elections approaching, as a key test of governance.



Coverage on fiscal risks from public entities is also an area that needs improvement.



# Part II - Analysis of the 2026 National Budget: Allocations, Strategic Priorities, and Implementation Risks

The 2026 National Budget, presented under the theme “Consolidating Economic and Social Gains Towards a Prosperous, Resilient and Equitable Zambia,” outlines planned expenditure of K253.1 billion, a notable increase from the K217.1 billion initially proposed for the 2025 fiscal year. This budget represents a critical juncture for the nation, attempting to balance ambitious developmental objectives with severe fiscal constraints. The allocations reflect a strategic alignment with 8NDP, prioritising economic transformation, human capital development and social protection.

## Synthesis of Historical Ambitions

The annual budgets from 2021 to 2024 narrate a clear policy evolution from immediate crisis mitigation to a more structured, long-term growth agenda. The following table summarizes the key features of the national budget for each year.

Table 1: Zambia Annual National Budget Summary, 2021-2026

Budget Year	Theme	Budget Size (ZMW)	Key Macroeconomic Objectives	Key Policy Initiatives
2021	Stimulate Economic Recovery and Build Resilience to Safeguard Livelihoods and Protect the Vulnerable	119.6 billion	GDP Growth: 1.8%; Fiscal Deficit: 9.3% of GDP	COVID-19 response, Economic Recovery Programme, tax relief for hospitality & PAYE, debt management.
2022	Growth, Jobs and Taking Development Closer to the People	173.0 billion	GDP Growth: ≥3.5%; Inflation: single digits by end-2022 (6-8% by mid-2023); Fiscal Deficit: ≤6.7% of GDP..	First New Dawn Govt. budget; Massive increase in Constituency Development Fund (CDF); Focus on social sectors.
2023	Stimulating Economic Growth for improved livelihoods	167.3 billion	GDP Growth: 4.0%; Inflation: 6-8%	First budget post-IMF deal; Continued free education & social cash transfer; Increased FISP funding & transition to CASP.

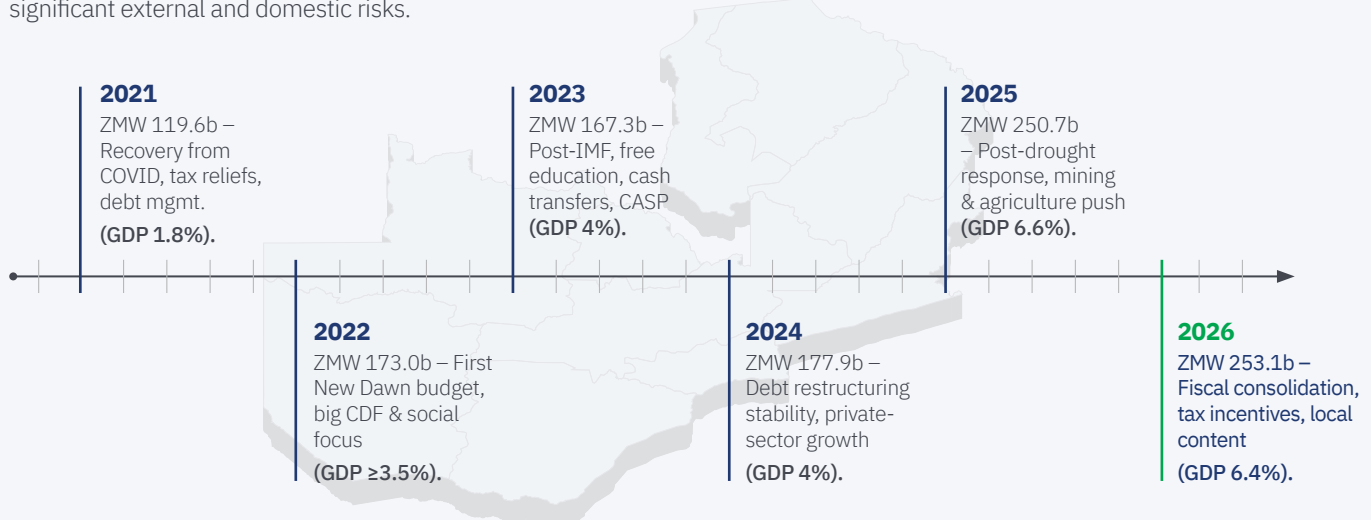
Budget Year	Theme	Budget Size (ZMW)	Key Macroeconomic Objectives	Key Policy Initiatives
2024	Unlocking Economic Potential	177.9 billion	GDP Growth: 4.0%; Fiscal Deficit: 4.8% of GDP	Building on debt restructuring stability; Fine-tuning policies for private-sector-led growth; Tax incentives for rural areas & value addition.
2025	Building Resilience for Inclusive Growth and Improved Livelihoods	217.1 billion (Original) + 33.6 billion (Supplementary) = 250.7 billion (Total)	GDP Growth: 6.6%; Inflation: 6-8%; Fiscal Deficit: 4.6% of GDP (revised from 3.1%)	Post-drought crisis response; Supplementary budget to cover debt service, dismantle arrears, and increase social cash transfers; Continued investment in mining, agriculture, and social sectors.
2026	Consolidating Economic and Social Gains Towards a Prosperous, Resilient and Equitable Zambia	253.1 billion	GDP Growth: 6.4%; Inflation: 6-8%; Fiscal Deficit: 2.1% of GDP; Domestic Revenue: >22.3% of GDP	Aggressive fiscal consolidation; Increased Mobile Money Levy; Tax incentives for vehicle assembly (CKD) & SPVs; Expanded local content allowance.

Source: 2026 Budget Address

The largest portion of the 2026 National Budget, 36.6%, is allocated to General Public Services, an expenditure dominated by the servicing of public debt. A significant K52.0 billion is earmarked for domestic debt interest alone, a figure that significantly overshadows the K21.7 billion allocated for all external debt service. This highlights a central tension within the budget: the fiscal space created by the successful restructuring of external debt has been immediately consumed by the escalating cost of domestic borrowing. This dynamic severely constrains the government's ability to fund other critical developmental areas, a fact explicitly acknowledged in the budget's limitations on infrastructure spending.

Key developmental allocations include K58.6 billion (23.2%) for Economic Affairs, which is intended to catalyse growth in agriculture, mining, and infrastructure. The social sectors also receive substantial funding, with K33.0 billion (13.0%) for Education and K26.2 billion (10.3%) for Health, underscoring the government's commitment to human capital development. Social Protection is allocated K15.7 billion (6.2%). While this represents a decrease from the 2025 allocation, which was significantly augmented by a supplementary budget to address the 2024 drought, it maintains a strong commitment to core programmes. A significant expansion of the Social Cash Transfer programme has proven to be a vital tool for both poverty alleviation and macroeconomic stabilisation, particularly in the wake of the 2024 drought.

However, the budget's ambitious framework and its credibility hinges on achieving a robust 6.4% real GDP growth and mobilising domestic revenues equivalent to 22.4% of GDP. These targets are critically dependent on the revitalisation of the mining sector, which in turn is entirely contingent on resolving the nation's severe energy deficit, vulnerability exposed by the 2024 drought. Furthermore, the effectiveness of flagship decentralisation programmes, such as the K6.2 billion Constituency Development Fund (CDF), is threatened by systemic weaknesses in public financial management and local implementation capacity, risking a disconnect between allocation and impact. Ultimately, the success of the 2026 Budget will be determined less by the magnitude of its allocations and more by the government's ability to execute complex structural reforms and mitigate significant external and domestic risks.



Source: 2026 Budget Address



# Balancing Ambition and Constraint with the 2026 Macro-Fiscal Framework

## The Overall Fiscal Stance

The 2026 National Budget outlines a comprehensive fiscal plan designed to navigate a complex economic landscape. The government proposes a total expenditure of K253.1 billion, which corresponds to 27.4% of the nation's Gross Domestic Product (GDP) and marks a 16.6% increase over the K217.1 billion budget for 2025. This spending blueprint is anchored within a set of ambitious macroeconomic objectives for the fiscal year. The primary goals are to stimulate the economy to achieve a real GDP growth rate of 6.4% while simultaneously pursuing a path of fiscal consolidation aimed at reducing the fiscal deficit to a target of 2.1% of GDP. This dual objective of fostering growth while tightening fiscal controls is consistent with the government's medium-term strategy, as the 2025-2027 Medium Term Budget Plan (MTBP) and Green Paper projects a comparable growth rate of 5.9% for 2026.

The credibility of this macro-fiscal framework is, however, conditional upon the realisation of its underlying assumptions. The government's ability to fund its expansive developmental agenda while adhering to a strict deficit target is predicated on the successful achievement of both the ambitious growth forecast and a significant increase in domestic resource mobilisation. Any shortfall in these areas would necessitate either a sharp, pro-cyclical contraction in spending or a deviation from the stated deficit targets, thereby undermining the fiscal consolidation agenda.

Table 2: Resource Envelope and Financing

Metric	Amount (ZMW billion)	Share of GDP (%)
Total Expenditure	253.1	27.4
Domestic Revenue	206.5	22.3
Grants	12.1	1.3
<b>Total Revenue &amp; Grants</b>	<b>218.6</b>	<b>23.7</b>
Overall Deficit	(34.5)	(3.7)
<b>Financing</b>	<b>34.5</b>	<b>3.7</b>
Domestic Borrowing	21.6	2.3
External Borrowing	12.9	1.4

Source: 2026 Budget Address

## Financing the Agenda

The financing structure of the 2026 budget relies heavily on domestic efforts. The budget projects that domestic revenues will contribute K206.5 billion, equivalent to 22.3% of GDP, forming the bedrock of the government's resource envelope. This is to be supplemented by K12.1 billion in grants from cooperating partners. Despite these inflows, a financing gap of K34.5 billion, or 3.7% of GDP, remains. To close this gap, the government intends to borrow K21.6 billion from domestic markets and secure K12.9 billion from external sources.

The significant reliance on domestic borrowing is a critical feature of the budget. While a large portion of external debt has been successfully restructured, creating some relief, the government is now turning to the domestic market to meet its financing needs. This strategy carries inherent risks, most notably the high cost of domestic debt, which, as will be explored in the subsequent section, already consumes a disproportionate share of public resources.

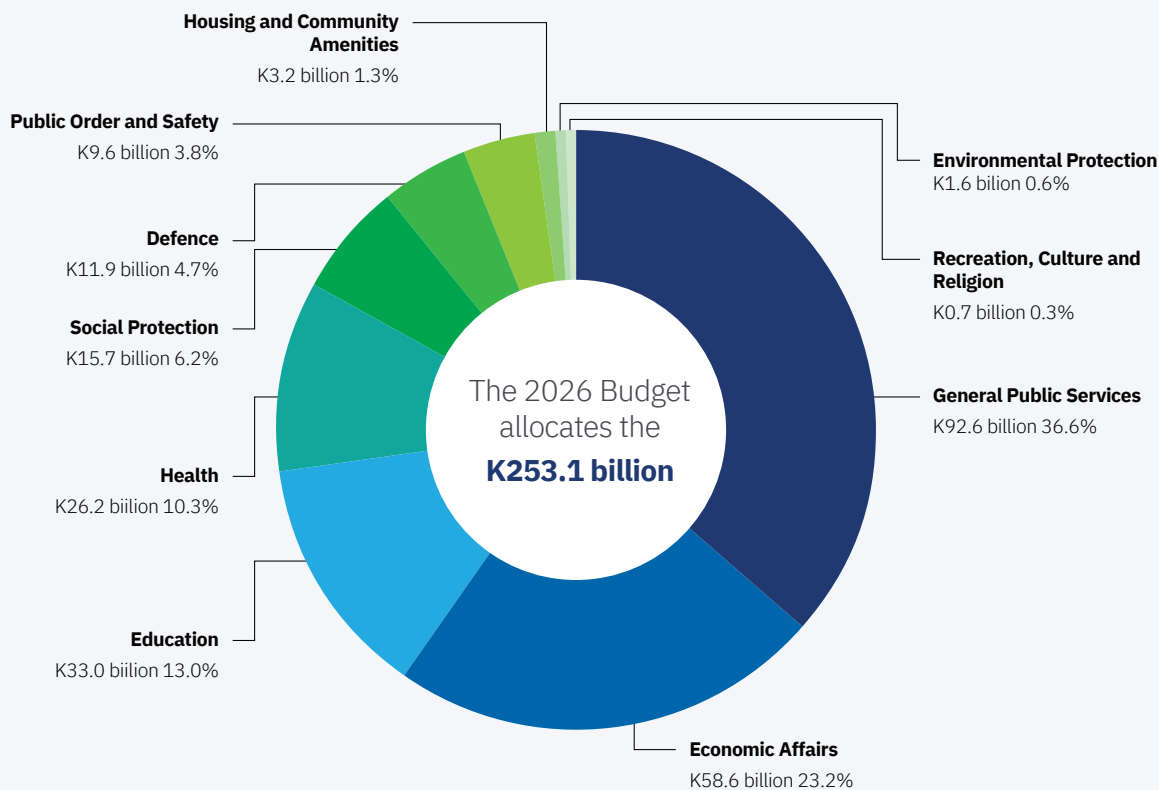
The entire fiscal framework, therefore, presents a narrative of disciplined consolidation while simultaneously funding a developmental agenda. The viability of this approach is not guaranteed. The government has demonstrated a commitment to fiscal prudence, evidenced by the low deficit target for 2026 and the achievement of a primary surplus in 2024. We also

note that the budget also contains significant spending commitments in priority areas. The reconciliation of these competing pressures depends entirely on the performance of the real economy. The denominator in all fiscal calculations, GDP, must grow robustly, and revenue collection must be exceptionally efficient. This required growth is critically dependent on the mining sector’s revitalisation, which is, in turn, wholly dependent on resolving the nation’s profound energy crisis. Consequently, the 2026 macro-fiscal framework is built upon a precarious chain of assumptions. A shock at any point in this chain, be it adverse climate conditions impacting hydropower, delays in private energy investments, or a downturn in global copper demand, would invalidate both the growth and revenue projections. Such a scenario would render the 2.1% deficit target unattainable without resorting to severe and potentially damaging expenditure cuts, thereby jeopardising the very socio-economic gains the budget aims to consolidate.

Analysis of Strategic Expenditure by Function

The 2026 Budget allocates the K253.1 billion in total expenditure across ten functions of government, an increase from the K217.1 billion proposed for 2025. The distribution of these funds reveals the governments ‘s key priorities, with a significant concentration of resources in General Public Services, Economic Affairs, and the core social sectors of Education, Health, and Social Protection. These five functions collectively account for over 90% of the total budget, providing a clear map of the government’s strategic focus for the fiscal year.

2026 National Budget Allocations



Source: 2026 National Budget address



## The Dominance of Debt Service in General Public Services (K92.6 billion; 36.6%)

The General Public Services commands the largest single share of the 2026 budget, growing to K92.6 billion from K73.8 billion originally allocated in 2025.

This is a clear indicator of the fixed and non-discretionary costs that constrain the government's fiscal flexibility.

The overwhelming driver of this allocation is the servicing of public debt. Key components within this function include:

- **Domestic Debt Interest at K52.0 billion** (up from K37.3 billion in 2025)
- **External Debt (Interest and Principal) at K21.7 billion** (up from K16.7 billion in 2025) [1, 1]
- **Dismantling of Arrears at K4.7 billion**, which is a significant reduction from the revised 2025 allocation, which started at K5.7 billion and was later increased by over K10.8 billion through a supplementary budget to clear outstanding obligations.
- **2026 General Elections at K1.2 billion.**

In his address, the Minister of Finance and National Planning explicitly drew attention to a significant shift in the nation's debt profile. He noted that "the burden of servicing domestic debt, at K52.0 billion, is now much higher compared to that of external debt at K21.7 billion". This situation is attributed to the sharp increase in domestic borrowing through Treasury bills and Government bonds that occurred between 2015 and 2021. As these instruments mature, they create a large and immediate demand on the treasury, a fiscal legacy that continues to shape current budgetary realities.

This allocation reveals a critical dynamic in the nation's public finances. The government has achieved a landmark success in restructuring over 92% of its external debt, a move that was expected to create significant fiscal space for developmental spending. However, the 2026 budget figures demonstrate that this anticipated "fiscal dividend" has been largely, if not entirely, consumed by a burgeoning domestic debt crisis. While external debt service appears manageable at K21.7 billion, the allocation for domestic debt interest alone is more than double that amount.




The consequence is a severe "crowding out" of developmental expenditure. The Minister of Finance acknowledged this directly, stating that the rise in the cost of servicing domestic debt limits the government's ability to fund other needs, such as road infrastructure. The nation finds itself in a challenging fiscal cycle as it must borrow from the domestic market at high interest rates to finance its budget, and the subsequent cost of servicing this debt then consumes an ever larger share of future budgets. This prevents the very investments in growth enhancing sectors that could generate the revenue needed to break the cycle of borrowing and debt.



Fuelling the Growth Engine with Economic Affairs (K58.6 billion; 23.2%)

The allocation to the Economic Affairs function, which has increased to K58.6 billion from K48.7 billion in 2025, is the primary instrument through which the government intends to operationalise the “Economic Transformation and Job Creation” pillar of the 8NDP. In his address to parliament, the President identified agriculture, mining, and infrastructure as the key sectors that will drive this transformation. The budget allocations reflect these priorities, channelling significant resources towards stimulating productivity and catalysing private investment.

Key sub-sector allocations include:

<div><div>Agriculture, Livestock &amp; Fisheries</div><div>(K15.5 billion)</div><div></div></div>	<p>This allocation remains relatively stable compared to the K15.4 billion budgeted for 2025. This substantial allocation underscores the government’s focus on enhancing food security and agricultural productivity, particularly following the severe drought of 2024. Within this amount, K9.2 billion is dedicated to the Farmer Input Support Programme (FISP), a slight decrease from the K9.3 billion allocated in 2025, and K2.1 billion is allocated to maintaining the Strategic Food Reserve, down from K2.4 billion in 2025. A central policy reform is the complete migration of FISP to an e-voucher system, a move intended to improve efficiency and empower farmers.</p>
<div><div>Road Infrastructure</div><div>(K14.5 billion)</div><div></div></div>	<p>This represents a notable increase from the K12.0 billion allocated in 2025, signalling a renewed focus on this area. The allocation supports the strategic vision of transforming Zambia from a “land-locked to a land-linked” nation. The funds are intended to advance major transport corridor projects, such as the Zambia-Lobito Railway and the revitalisation of the Tanzania-Zambia Railway Authority (TAZARA), which are crucial for improving regional connectivity and reducing the cost of trade.</p>
<div><div>Mining</div><div>(K1.2 billion)</div><div></div></div>	<p>This is a strategic increase in funding for the sector. For comparison, the 2025 budget allocated K364.0 million specifically for the geological mapping exercise, which was later supplemented with an additional K400.0 million. While modest in comparison to other areas, this is a strategic investment aimed at unlocking the vast potential of the mining sector. It includes K541.5 million for the continuation of the country-wide aerial geological and geophysical mapping exercise, compared to a revised 2025 total of K764.0 million for the same activity, and K449.5 million to support the formalisation and development of artisanal and small-scale mining (ASM). These investments are foundational to achieving the ambitious national target of increasing annual copper production to 3 million metric tonnes.</p>

**The budget for Economic Affairs reveals a clear strategy:** using public funds to de-risk and catalyse significantly larger flows of private investment. The geological mapping in mining and the pursuit of Public-Private Partnerships (PPPs) for major road projects is designed to attract the substantial private capital needed for these sectors to realise their potential.

However, the success of this entire strategy is critically dependent on resolving a single, overarching constraint: the national energy deficit. Analyses from the World Bank and other institutions converge on the point that investment in mining or manufacturing will be limited without a reliable, affordable, and expanded power supply.

Despite the systemic importance of energy, the direct budgetary allocation for the sector is a K500.0 million contribution to a newly established Electricity Fund. This amount appears modest when weighed against the scale of the challenge and the degree to which the entire economic agenda depends on its resolution. The budget, therefore, carries a massive, unpriced dependency on the successful and rapid reform of the energy sector to drive PPPs.



### Investing in Zambia’s Future through Human Capital Development

The 2026 Budget makes substantial allocations to the social sectors, reflecting the government’s commitment to the “Human and Social Development” pillar of the 8NDP and its focus on improving the livelihoods of its citizens.



#### Education (K33.0 billion; 13.0%):

The education sector receives the third-largest share of the budget, an increase from the K31.5 billion allocated in 2025. Funding is directed towards expanding access and improving infrastructure. Key allocations include:

- K2.4 billion for School Operations, which underpins the government’s flagship Free Education programme, a slight increase from K2.3 billion in 2025.
- K2.3 billion for the completion and rehabilitation of School and University Infrastructure across the country.
- K1.4 billion for the Higher Education Loans and Scholarship Board, aimed at ensuring students from lower-income families can access tertiary education.

The governments education sector policies have driven the success of the free education policy, which has brought millions of learners back into the school system. The recruitment of over 42,000 teachers since 2022 has also improved the teacher-pupil ratio.



#### Health (K26.2 billion; 10.3%):

The health sector is another key priority, with its allocation rising from K23.2 billion in 2025. There is a focus on ensuring the availability of essential supplies and expanding the reach of healthcare services. Notable allocations are:

- K6.4 billion for the procurement of Drugs and Medical Supplies which represents a 30% increase from the 2025 allocation of K5.0 billion and is explicitly intended to cover the gap left by the withdrawal of some external support, signalling a move towards greater domestic financing of the health system.
- K1.7 billion for Health Infrastructure Development, including the ongoing construction of mini hospitals across the country.

The Minister of Finance reported a significant improvement in the availability of essential drugs in health facilities, claiming a rate of 90%, up from just 46% in 2021.

While these substantial financial commitments demonstrate a clear intent to strengthen the social sectors, a deeper analysis reveals a potential disconnect between inputs and outcomes. The budget’s focus is heavily weighted towards quantifiable inputs: the amount of money spent, the number of teachers hired, the percentage of drug availability, and the number of schools built. This approach, however, may overlook the more complex and critical challenge of improving the quality and efficiency of service delivery.

There is a possible mismatch between the government’s input-based planning and the public’s outcome-based needs. While the high allocations to education and health are a necessary condition for progress, they are not sufficient. The ultimate effectiveness of this K59.2 billion investment in human capital will be determined not by the inputs it funds, but by the government’s ability to enact deeper systemic reforms that address the quality and effectiveness of service delivery. The absence of explicit, funded initiatives aimed at improving performance management, accountability, and the efficiency of these systems represents a significant potential gap in the budget’s strategy.

## **Ensuring Public Order and Safety (K9.6 billion; 3.8%)**

The budget allocates K9.6 billion to maintain public order and safety, with key interventions aimed at modernising security wings, improving infrastructure, and reinforcing the fight against corruption through a 14.0% increase in funding to law enforcement agencies. A key component of this function is the continued implementation of the Integrated National Registration Information System (INRIS).

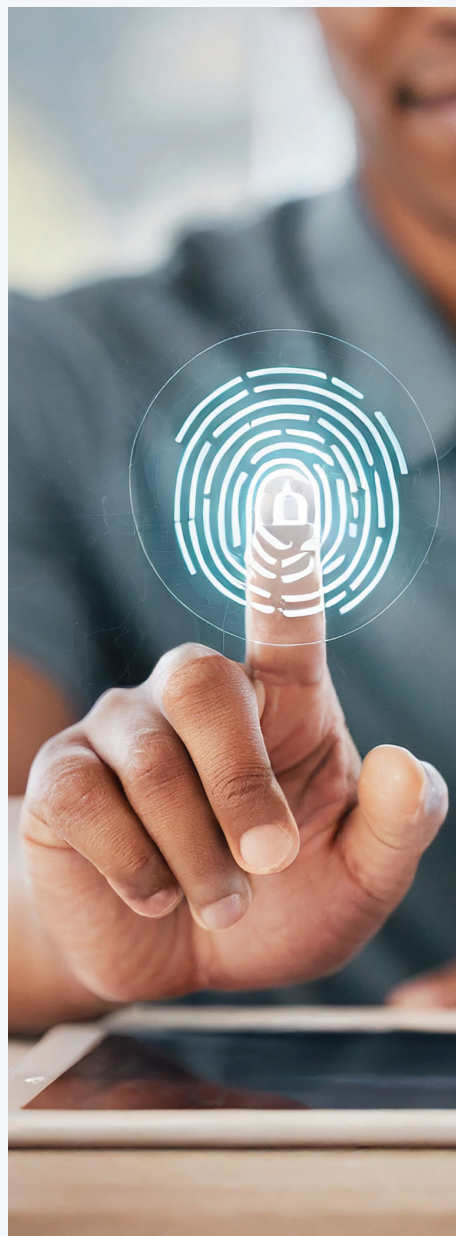
### **INRIS is a Foundational Project Critical to Zambia’s Digital Future**

The 2026 budget allocates K217.8 million to support the implementation of INRIS, maintaining the same level of funding as in 2025. This project is a cornerstone of Zambia’s National Digital Transformation Strategy (2023-2027) and is considered a presidential priority. Its primary objective is to replace the current manual, paper-based national registration system with a modern, digitised system that provides a unique, biometric-enabled digital identity for every citizen and eligible resident from birth.

The strategic importance of INRIS is multi-faceted. Critically, it is designed to enhance domestic resource mobilisation through strengthened tax administration by broadening the tax base. By providing a unique and verifiable identity for every individual, the system will make it significantly easier to track economic activity, formalise the informal sector, and ensure greater tax compliance.

Beyond its fiscal benefits, INRIS is expected to generate significant efficiencies across the public sector. It will serve as a foundational platform that other government agencies can leverage, minimising wasteful expenditure on duplicate biometric systems. This will strengthen the administration of social services by preventing fraud, such as “double-dipping” by ineligible beneficiaries, and will reduce the costs associated with voter registration by creating a single, reliable source of citizen data. The system will also enhance national security by making it more difficult for individuals to assume false identities and will support the financial sector by enabling more robust “Know Your Customer” (KYC) processes.

The urgency of completing the INRIS project is underscored by its centrality to the national digital agenda and the goals of the 8NDP, which targets 100% biometric ID coverage by 2026. Although the project was temporarily paused when funds were reallocated to address the 2024 drought, its completion remains critical for unlocking efficiencies, broadening the tax base, and building the digital infrastructure necessary for a modern economy.



## **Strengthening the National Safety Net Through Social Protection (K15.7 billion; 6.2%)**

The 2026 Budget allocates K15.7 billion to social protection programmes. This figure represents a planned reduction from the 2025 budget, which proposed K16.2 billion and was further augmented by a supplementary budget to fund emergency drought-response measures. The allocation is particularly vital in the aftermath of the severe 2024 drought, which disproportionately affected low-income households.

The centrepiece of this allocation is the K7.6 billion designated for the Social Cash Transfer (SCT) Programme. This is a decrease from the revised 2025 allocation, which totalled over K9.8 billion after a supplementary budget of K1.56 billion was approved to cushion households from the effects of the drought. This funding aims to expand the programme's reach to 1.5 million beneficiary households, directly impacting an estimated 8.4 million people. Another key component is the K1.5 billion allocated to the Food Security Pack, an increase from the K1.2 billion budgeted in 2025, which provides vulnerable but viable farmers with essential inputs to enhance their climate resilience and productive capacity.

The strategic importance of these social safety nets, particularly the SCT, extends beyond poverty alleviation. The experience of the 2024 drought demonstrated the programme's crucial role as a tool for crisis response and macroeconomic management. During periods of economic stress, direct cash injections into the rural economy sustain household consumption, support local businesses, and prevent a deeper and more prolonged economic contraction.

Therefore, the substantial increase in the allocation to the SCT programme in the 2026 budget can be interpreted as a strategic policy choice with a dual purpose. It is simultaneously a social intervention aimed at protecting the most vulnerable and a key component of the nation's broader strategy for climate adaptation and economic stabilisation. This dual role helps to justify its high priority within a fiscally constrained environment, as it represents a direct investment in national resilience.



### **Driving Decentralization Through the Constituency Development Fund (CDF)**

A cornerstone of the government's decentralisation agenda is the enhanced Constituency Development Fund (CDF). The 2026 Budget continues the policy of significantly increasing resources for this programme, with the allocation rising to K6.2 billion from K5.6 billion in 2025. This translates to an increase in the per-constituency allocation to K40.0 million, up from K36.1 million in 2025.

The government presents the CDF as one of its most powerful and transformative initiatives. The programme is credited with delivering tangible development directly to communities across the country, bypassing the perceived inefficiencies of central government procurement. Achievements cited include the construction of 2,800 classroom blocks, 131 health posts, and 1,941 boreholes, as well as the provision of over 82,000 secondary school bursaries and the empowerment of over 47,000 women and youth groups with grants since 2022. The CDF is lauded as a "game changer" that is visibly improving lives by bringing services and economic opportunities closer to the people.

However, success of the CDF programme is tempered by implementation challenges. Our analysis of the 8NDP's implementation in 2024 highlighted systemic implementation deficits, including delays in fund disbursement from the central treasury and critical capacity shortages at local levels. These issues may impair the effective and timely use of CDF resources. These challenges creates a significant political and developmental paradox. The CDF is conceptually a powerful tool for promoting local participation and responsive development. Yet, its practical effectiveness is being fundamentally undermined by the very Public Financial Management (PFM) weaknesses and capacity constraints that it is intended to circumvent. The 2026 budget doubles down on the financial allocation to the CDF, increasing the funds available to local communities, but it does so without explicitly addressing the critical implementation bottlenecks that prevent these funds from being absorbed efficiently.

There is a substantial risk that a significant portion of the K6.2 billion allocated will not be effectively utilised within the fiscal year. This could lead to stalled projects, unmet community expectations, and a low rate of return on a major public investment. By rapidly scaling up the funding without first resolving the underlying PFM and local capacity issues, the government risks turning a flagship success story into a source of public frustration and fiscal inefficiency. The success of the enhanced CDF, therefore, depends less on the size of its budget and more on the government's ability to reform the administrative and financial systems that govern its implementation.



## Synthesis and Strategic Outlook

### Alignment with National Priorities

An assessment of the 2026 Budget reveals a strong thematic alignment with Zambia’s overarching national priorities. The expenditure allocations are consistent with the strategic pillars of the 8NDP and echo the President’s declared theme of “Consolidating Economic and Social Gains”. The significant investments in agriculture and mining directly address the 8NDP’s goal of “Economic Transformation and Job Creation,” while the substantial funding for education, health, and social protection corresponds to the “Human and Social Development” pillar. However, while the budget is thematically coherent, its ultimate success is not guaranteed by the allocations alone. The budget’s viability is contingent on the government’s ability to navigate a landscape fraught with the structural weaknesses and profound risks identified throughout this analysis.


### Key Risks to Budget Implementation

The implementation of the 2026 Budget is subject to three critical and interconnected categories of risk:




#### Fiscal Risk

The most immediate threat to fiscal stability is the heavy burden of domestic debt. The K52.0 billion allocated for domestic interest payments severely “crowds out” discretionary spending on growth-enhancing investments like infrastructure. This creates a dependency on further borrowing, perpetuating a cycle of debt. Furthermore, the budget’s revenue projections are highly dependent on the mining sector, exposing public finances to the inherent volatility of global copper prices and production levels.



#### External and Climate Risk

The entire economic and fiscal plan is profoundly vulnerable to climate-related shocks. The 2024 drought demonstrated how a single climatic event can trigger a cascade of crises through the tightly linked energy-agriculture-mining nexus, leading to power shortages, crop failures, reduced mining output, and inflationary pressures. The budget’s success is therefore heavily dependent on favourable weather patterns and the urgent, successful implementation of climate adaptation and energy diversification strategies.



#### Implementation Risk

Beyond financial and environmental challenges lie deep-seated institutional weaknesses. Systemic inefficiencies in public financial management, characterized by chronic delays in fund disbursement from the central government to implementing agencies, threaten the timely execution of projects. This is particularly acute at the local level, where insufficient technical and administrative capacity jeopardises the effectiveness of major decentralised programmes like the Constituency Development Fund, risking a failure to translate budgetary allocations into tangible developmental outcomes.

### Concluding Analysis

The 2026 National Budget is a document of significant ambition. It is strategically aligned with Zambia’s long-term development aspirations and makes bold financial commitments to key sectors. However, it is also a budget that carries an exceptionally high degree of risk.

It is dependent on the successful and rapid revitalisation of the mining sector. This, in turn, is dependent on the swift resolution of the national energy crisis, the attraction of substantial private investment into public infrastructure and the stability of global commodity markets. The budget provides the financial inputs for this strategy, but the critical determinants of its success lie beyond the scope of simple resource appropriation. They reside in the government’s capacity to execute complex and politically sensitive structural reforms in the energy sector, agricultural support systems like FISP, and public financial management.

Ultimately, the performance of the 2026 Budget will not be measured by the size of its allocations, but by the government’s ability to manage this intricate web of dependencies and risks. Success will require not only fiscal discipline but also profound institutional reform, effective climate adaptation, and a measure of good fortune in the face of volatile external conditions.

# Part III - Commentary on the 2026 National Budget Tax Measures



## Income Tax Measures

The proposed amendments to the Income Tax Act are multifaceted, encompassing targeted concessions to stimulate growth, compensating measures to broaden the revenue base, and housekeeping amendments to modernise the legal framework.

### Revenue Concession Measures

These measures are designed to provide targeted fiscal relief to incentivise investment, support small enterprises, and promote social objectives.

**Extend the 2 percent local content allowance to income earned from value addition to milk, raw hides and skins.**



**Analysis:** This measure expands an existing incentive under Section 34B of the Income Tax Act to the dairy and leather sub-sectors. The primary goal is to encourage domestic value addition in industries with significant, yet largely untapped, potential. Zambia's dairy sector is dominated by low-productivity smallholders, while the leather industry has struggled with poor raw material quality and a lack of investment. While a 2% allowance is a modest direct financial incentive, its real value lies in its function as a strong policy signal. It designates these value chains as national priorities, which can unlock more substantial investment.

**Remove carry forward time limitation of disallowed interest under section 29(4) of the Income Tax Act.**



**Analysis:** This proposal removes the 5 year (and 10 year for mining/ electricity) time limit for carrying forward interest expenses that are disallowed under the 30% of EBITDA cap. This is a significant pro-investment reform that aligns Zambia with the most flexible interpretation of the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project's Action 4 recommendations. The BEPS framework explicitly presents indefinite carry-forward as a best-practice option to ensure that interest limitation rules do not unduly penalise businesses with long investment cycles or volatile earnings. This is particularly crucial for investments in the strategic mining and energy sectors.

**Increase the Turnover Tax and Rental Income Tax exempt threshold to K2,500 from K1,000 per month.**



**Analysis:** This measure provides direct tax relief to micro-enterprises and low income property owners, many of whom operate in the informal sector. Presumptive regimes like Turnover Tax are designed to simplify compliance for small taxpayers. Raising the tax-free threshold is a pragmatic policy that serves two functions. Administratively, it removes many very low-yield taxpayers from the tax net, allowing the ZRA to focus its resources more efficiently. Socially, it lessens the tax burden on the most vulnerable businesses, aligning with the budget's equity objectives.

**Increase the turnover threshold for Artisanal and Small-Scale mining from K800,000 to K5,000,000.**

**Analysis:** This measure aligns the presumptive tax threshold for the Artisanal and Small-Scale Mining (ASM) sector with the standard Turnover Tax threshold. The ASM sector in Zambia is not only a major source of livelihood but is also largely informal, posing challenges for regulation and tax collection. This harmonisation is a critical step towards formalisation.

**Reduce the penalty for late Turnover Tax payment to 0.5 percent from 5 percent per month.**



**Analysis:** This measure significantly reduces the penalty for late payment of Turnover Tax, acknowledging the cash flow volatility common among the micro and small enterprises subject to this regime. A punitive 5% monthly penalty can quickly create an insurmountable debt burden, potentially forcing a struggling business back into informality. A lower penalty adopts a more supportive approach to compliance, aiming to encourage voluntary payment by making the consequences of temporary delinquency less severe.

**Increase the allowable income tax deduction for companies that employ Persons with Disabilities to K2,500 from K2,000 per annum.**

**Analysis:** This proposal enhances the tax incentive for employers under Section 43D of the Income Tax Act. While the monetary increase is modest, the measure is symbolically important and aligns with established international norms. The International Labour Organization (ILO), the World Bank, and the OECD all advocate for policies that promote the labour market inclusion of persons with disabilities. Tax incentives are a widely used tool globally to encourage the hiring of persons with disabilities.

**Income Tax concessions for the TAZARA Railway PPPs.**



**Analysis:** This is one of the most significant incentive measures in the budget, creating a bespoke and highly generous fiscal regime to attract private investment for the revitalisation of the TAZARA railway. The railway is in a state of disrepair, and its rehabilitation is beyond the government's fiscal capacity, making a PPP essential. The concessions, including a multi-year corporate income tax holiday and significantly relaxed rules on loss and interest deductibility, are significant. This approach must be assessed against the OECD Principles for Public Governance of PPPs, which stress the need for rigorous value-for-money analysis and transparent management of long-term fiscal risks. The government is making a substantial, multi-decade fiscal gamble, betting that the indirect economic benefits of a functional railway will ultimately outweigh the significant direct loss of tax revenue.



## Compensating Measures

These measures are intended to offset revenue forgone from concessions by broadening the tax base.

**Exclude public service vehicles with a seating capacity of 50 and above from Presumptive Tax**



**Analysis:** This measure moves large bus operators from the simplified Presumptive Tax regime to either Turnover Tax or the standard Corporate Income Tax, depending on their annual turnover. This is a logical and equitable reform, as presumptive tax regimes are designed for smaller, often informal, operators for whom standard accounting is a significant burden. Operators of large buses are typically more formalised corporate entities with the capacity to comply with standard tax rules. Keeping them in a low, fixed-tax regime violates the principle of horizontal equity.

However, this measure introduces significant complexity for businesses that operate mixed fleets of both large (50+ seats) and small (<50 seats) buses. For such a business, the income from smaller vehicles would remain under the fixed Presumptive Tax, while the income earned from the larger buses would be carved out and taxed separately. The total annual turnover of the entire business would then determine whether this segregated income is subject to Turnover Tax (if total turnover is K5 million or less) or Corporate Income Tax (if total turnover exceeds K5 million). This creates a hybrid tax situation for a single entity, significantly increasing the compliance burden. The business would need to maintain separate, detailed records to segregate revenue streams and would lose the overall simplicity that the presumptive regime was designed to provide. This complexity could act as a disincentive for smaller operators to expand their fleets to include larger vehicles. We urge government to resolve this potential complexity in the substantive tax legislation.

**Extend Advance Income Tax (AIT) on foreign remittances to non-bank platforms**



**Analysis:** This measure closes a major loophole in Section 81C of the Income Tax Act by extending the AIT on foreign remittances over US\$2,000 to non-bank platforms, such as mobile money operators. The rapid growth of digital financial services has created new channels for cross-border payments that were not covered by the existing bank-focused legislation. This amendment modernises the tax system and levels the playing field between traditional banks and fintech platforms. It aligns with the international agenda, driven by the OECD and the Global Forum, to ensure tax transparency and compliance across all financial channels, including digital ones.



## Housekeeping Measures

These technical amendments are aimed at modernising tax legislation and ensuring international compliance.

### Allow mineral processing businesses to keep books of accounts in US dollars



**Analysis:** This measure directly amends the provisions of Section 55 of the Income Tax Act. Currently, Section 55(1A) mandates that all business records be kept in Zambian Kwacha. However, Section 55(4) provides a specific exception, allowing a person carrying on mining operations to elect to keep books of account in United States Dollars (USD), provided at least 75% of their gross income is earned in foreign exchange. The proposed measure extends this same facility to businesses engaged in mineral processing.

This is a pragmatic and welcome extension that acknowledges the economic reality of the sector, which is intrinsically linked to global commodity markets where the USD is the standard currency. Allowing these businesses to account in USD reduces their administrative burden and insulates them from currency volatility, eliminating significant foreign exchange gains or losses that can arise on paper. However, a better long-term solution would be to align the Income Tax Act more broadly with International Financial Reporting Standards (IFRS), specifically IAS 21, which allows any entity to use its “functional currency” the currency of the primary economic environment in which it operates. Adopting a principles-based functional currency approach would be more equitable, applying to all export-oriented businesses, not just a specific sub-sector.

### Allow taxpayers on voluntary VAT registration scheme to also register for Turnover Tax



**Analysis:** This measure addresses a legislative anomaly where small businesses that voluntarily register for VAT are required to register for the more complex standard Income Tax regime, even if their turnover were below the threshold that would otherwise allow them to use the simpler Turnover Tax system. The proposed solution is to explicitly permit these businesses to be on both the voluntary VAT scheme and the Turnover Tax regime. While this provides a functional solution, a simpler and more direct legislative approach could have been to amend the underlying provision in the Income Tax Act, such as Section 64A(1), to remove the requirement for voluntary VAT registrants to register for standard Income Tax in the first place. This alternative would eliminate the anomaly at its source rather than creating a specific allowance to bypass it.

### Remove penalties for voluntary disclosure



**Analysis:** This is a very welcome move designed to encourage taxpayers to come forward and correct past errors without the fear of punitive penalties. This aligns with international best practices, as promoted by the OECD, which encourage the use of formal Voluntary Disclosure Programmes (VDPs) as a pathway to compliance. Such programmes are a common tool in modern tax administration to foster a culture of voluntary compliance over purely enforcement-led approaches. They provide an opportunity for taxpayers to regularise their affairs, often in exchange for reduced penalties and protection from prosecution, on the condition that the disclosure is made before an investigation is initiated. To maximise its effectiveness, this principle should be extended to all tax types as part of a formal, permanent VDP integrated within a broader Tax Administration Act. This would provide legal certainty for taxpayers.

## Align the legal framework for Exchange of Information (EOI) with international standards



**Analysis:** This amendment to Section 74 of the Income Tax Act is a critical and direct response to Zambia's commitment to international tax transparency standards. Having recently become the 171st member of the Global Forum on Transparency and Exchange of Information for Tax Purposes, Zambia is subject to a rigorous peer review process that assesses its legal framework and practical ability to exchange tax information. This legislative change is almost certainly intended to address specific recommendations arising from such a peer review, which is a prerequisite for maintaining a favourable compliance rating. A key element of the Global Forum's standard is the requirement that jurisdictions have access to information on the ultimate beneficial owners of companies. This links the Income Tax Act amendment directly to the parallel reforms of the Companies Act, which the Minister alluded to in the budget speech.

Zambia has progressively strengthened its beneficial ownership disclosure rules, notably through the Companies (Amendment) Act of 2020, which established a beneficial ownership register and defined "substantial interest" at a 5% threshold to align with international standards. Therefore, this measure should be seen as part of a broader, coordinated strategy. Planned amendments to the Companies Act will ensure the availability of beneficial ownership information, while the proposed amendment to the Income Tax Act strengthens the legal framework for the exchange of that information with treaty partners, thus fulfilling Zambia's international obligations.

## Introduce the Anti-Fragmentation Rule



**Analysis:** This is a direct adoption of a key recommendation from the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project's Action 7, which targets the artificial avoidance of a Permanent Establishment (PE). The anti-fragmentation rule specifically counters strategies where a Multinational Enterprise (MNE) splits a cohesive business into several smaller, supposedly "preparatory or auxiliary" activities to avoid creating a taxable presence. By requiring that these fragmented activities be aggregated and assessed as a whole, Zambia is equipping its tax authority with a modern, internationally recognised tool to protect its tax base. The anti-fragmentation rule strengthens the PE definition, making it a more robust tool for Zambia to assert its taxing rights over economic activities occurring within its borders and safeguarding the domestic tax base.

## Exempt Private Funds from Income Tax



**Analysis:** This measure represents a significant policy shift designed to stimulate Zambia's capital markets. It amends the exemption provided under Paragraph 5(1)(l) of the Second Schedule to the Income Tax Act. Currently, the income of an approved collective investment scheme or private fund is exempt from tax only "to the extent to which the income is distributed to participants." This means any income retained by the fund for reinvestment is subject to Corporate Income Tax. The proposed change will exempt all income earned by a private fund, including retained earnings. This makes the fund a completely tax-neutral vehicle, allowing it to accumulate and reinvest capital without tax leakage at the fund level.

The tax implications are shifted entirely to the investors, who will be taxed upon receiving distributions or upon disposing of their interest in the fund. This aligns Zambia with international best practices for investment funds, which aim to avoid double taxation (at both the fund and investor level) and thereby encourages the pooling of capital for investment in local businesses.



### Broaden the definition of “Commodity Royalty”



**Analysis:** This is a targeted anti-avoidance measure designed to strengthen the application of withholding tax on royalty financing arrangements under Section 82A(1) of the Income Tax Act. The Act defines a “commodity royalty” as a payment computed by reference to production or profit from a natural resource, paid in return for an upfront “purchase price.” The royalty payment is subject to withholding tax, but the repayment of the purchase price is not. This structure creates a risk that financing arrangements, which are in substance profit-sharing or debt, could be disguised as commodity royalties to avoid tax.

The budget proposal specifically seeks to broaden the definition to capture arrangements where no purchase price was paid, or where payments to shareholders (which should be treated as dividends from post-tax profits) are recharacterised as commodity royalties. This amendment ensures that the substance of a financial arrangement is taxed appropriately, preventing the erosion of the tax base through the mischaracterisation of payments related to Zambia’s natural resources.

## Property Transfer Tax (PTT) Measures

### Limit the types of surrender or forfeiture that are exempt for Property Transfer Tax purposes



**Analysis:** This measure is intended to curb tax avoidance by resolving a significant ambiguity between the PTT Act, the Companies Act, and administrative practice regarding the tax treatment of share surrenders and forfeitures. Currently, Section 6(1) (h) of the PTT Act broadly exempts any share “surrender or forfeiture, where there is no consideration.”

However, this has created confusion. The ZRA’s administrative guidance (Practice Note No. 1 of 2022) narrows this exemption significantly by applying the strict criteria for a forfeiture under the Companies Act (i.e., shares are not paid up, and a call for payment has been made and failed) to surrenders as well. This interpretation contradicts the common law understanding of a surrender, which can be a simple return of shares to the company, with or without consideration, and is not necessarily linked to unpaid calls.

The proposed measure to limit the types of exempt transactions is possibly a move to codify a stricter interpretation into tax law. It aims to close a perceived loophole where fully paid-up shares could be surrendered without consideration to avoid PTT on what is effectively a transfer of value back to the company (akin to a share buy-back). This provides legal certainty for the ZRA but restricts a potential tax planning avenue for companies, ensuring that only genuine forfeitures for non-payment are exempt from PTT. We note however that full clarity may be impossible without related changes to the provisions in the Companies Act.



**Extend the relief applicable to group reorganisation under Section 5(2)(A) of the Property Transfer Tax Act to cases that result in change of shareholding with respect to a company incorporated in Zambia, where companies involved in the transfer have been part of the group for three years or more, preceding the transfer**



**Analysis:** This measure is a significant and necessary reform that corrects a critical anomaly within the PTT Act, thereby facilitating genuine and commercially necessary corporate reorganisations. Current legislation, specifically the 2022 amendment to Section 5(2B) of the PTT Act, created an inconsistent and problematic situation for multinational groups. The relief from PTT was granted only to changes at the indirect shareholder level.

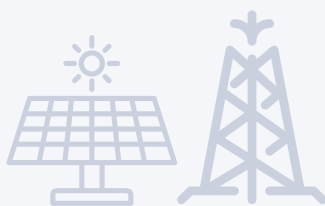
A direct transfer of shares in a Zambian company from one non-resident group company to another did not qualify for the relief and would trigger a PTT liability, as it constituted a direct change in the Zambian company's shareholding; however, an indirect transfer (e.g., the ultimate parent company selling a foreign subsidiary which, in turn, held the Zambian company's shares) could benefit from the relief, as the direct shareholding in the Zambian company remained unchanged. This inconsistency penalised straightforward internal restructuring while inadvertently providing relief for more complex, indirect transfers. The proposed 2026 amendment corrects this anomaly by explicitly extending the PTT relief to group reorganisations that result in a change of the direct shareholder of a Zambian company. To prevent abuse, the key safeguard is retained: the relief only applies if the selling company has been a member of the group for three or more years preceding the transfer. This ensures the provision is used for legitimate internal reorganisations and not for facilitating tax-free sales to external parties. By harmonising the treatment of direct and indirect transfers, this measure removes a significant tax barrier to efficient corporate restructuring and aligns Zambia's tax policy more closely with international best practices.

## Value Added Tax (VAT) Measures

### Revenue Concession Measures

These measures are designed to provide tax relief, encourage investment, and ease financial burdens on specific entities and projects.

**Extend the “intending trader” period for VAT purposes from the current 7 years to 10 years for businesses in the hydro-electricity generation subsector**



**Analysis:** An “intending trader” is a business that is not yet making taxable supplies but is incurring costs (and therefore input VAT) in preparation for future trading. This provision allows such businesses to register for VAT and reclaim the input VAT they incur on setup costs during this preparatory phase. The extension to 10 years is a significant concession that acknowledges the long gestation period of large-scale hydro-electricity projects. These projects involve substantial upfront capital investment in construction, machinery, and services over many years before the plant becomes operational and starts generating revenue (taxable supplies). By allowing these businesses to claim input VAT for a longer period, the government is effectively reducing the cost of investment and improving the project's cash flow from the outset. This measure is clearly aimed at attracting more significant and long-term investment into the renewable energy sector, aligning with national goals for energy security and sustainability.

**Change the VAT status of mains water supplied by water utility companies from exempt to zero-rated**



**Analysis:** When a supply is exempt, the supplier (the water utility company) does not charge VAT on its sales. However, it also cannot reclaim any input VAT paid on its business expenses (e.g., water treatment chemicals, pipes, energy, technical services, administrative costs). This unclaimable VAT becomes a direct cost to the business, which is often passed on to consumers through higher tariffs. The proposed zero-rating ensures that whilst the supplier still does not charge VAT to the consumer (the rate is 0%), it is entitled to reclaim all the input VAT it has paid on its operational costs.

This is a crucial and beneficial change for water utility companies. By allowing them to reclaim input VAT, their operational costs will decrease, and it will improve the financial viability and sustainability of these utilities, freeing up funds for reinvestment into infrastructure maintenance and expansion. For the consumer, this reduction in the utility's cost base should, in principle, alleviate upward pressure on water tariffs, making water more affordable.

**To zero-rate the supply of goods and services to government projects that are financed by loans**

**Analysis:** Currently, a distinction is made between government projects funded by donors (which are zero-rated) and those funded by loans (which are standard rated at 16%). When a project is standard rated, the government, as the final consumer, effectively pays the VAT, which increases the total project cost. This VAT amount then needs to be financed by the loan, increasing the country's debt and interest burden, or paid from other government revenues, straining the treasury. This measure aims to harmonize the treatment of all externally financed government projects and, more importantly, to improve government cash flow.

### Housekeeping Measures

These amendments are intended to refine the VAT Act and its regulations for clarity, fairness, and administrative effectiveness.

**Amend Section 19 of the VAT Act to empower the Minister of Finance, upon the recommendation of the Commissioner-General, to remit (waive or reduce) principal tax in specific, clearly defined circumstances**



**Analysis:** This introduces a formal, high-level mechanism for writing off VAT debts that are practically impossible to collect. The power is not arbitrary; it can only be exercised on the recommendation of the Commissioner-General and is limited to specific situations, including:

- The taxpayer is insolvent.
- The taxpayer has died without leaving a sufficient estate to cover the liability.
- The business has been dormant for a prolonged period (ten years).
- The liabilities relate to the pre-privatization era.
- The debt is nominal, and the cost of collecting it would be greater than the amount recovered.

This is a pragmatic and necessary administrative measure. Tax authorities often accumulate aged debt on their books that has no realistic chance of being recovered. Such “bad debt” inflates accounts receivable figures and wastes administrative resources in futile collection efforts. This provision creates a transparent and legally sound process for cleaning up the national debtor's book.

The requirement for a recommendation from the Commissioner-General ensures that each case will be properly vetted to prevent abuse, while the final authority resting with the Minister provides an appropriate level of oversight for waiving government revenue.



## Customs and Excise Measures

### Revenue Concession Measures

These measures are designed to provide targeted fiscal relief to stimulate growth in sectors identified as strategic priorities.

**Remove the 5 percent Selected Goods Surtax (SGS) on float glass**

**Analysis:** Float glass is a type of flat, undistorted glass that is a fundamental input for the construction industry, used in windows, doors, facades, and interior fittings. It is also used in the manufacturing of furniture, mirrors, and automotive glass.

This measure is a direct cost-reduction given the increase in duty on float glass from 5% and 15% to 25%.

**Remove the 5 percent Selected Goods Surtax (SGS) on flat-rolled products of iron or non-alloy steel**

**Analysis:** Flat-rolled steel is a basic industrial commodity and a critical raw material for a wide array of industries. It is used to produce roofing sheets, pipes, vehicle body parts, appliances, and various fabricated metal products.

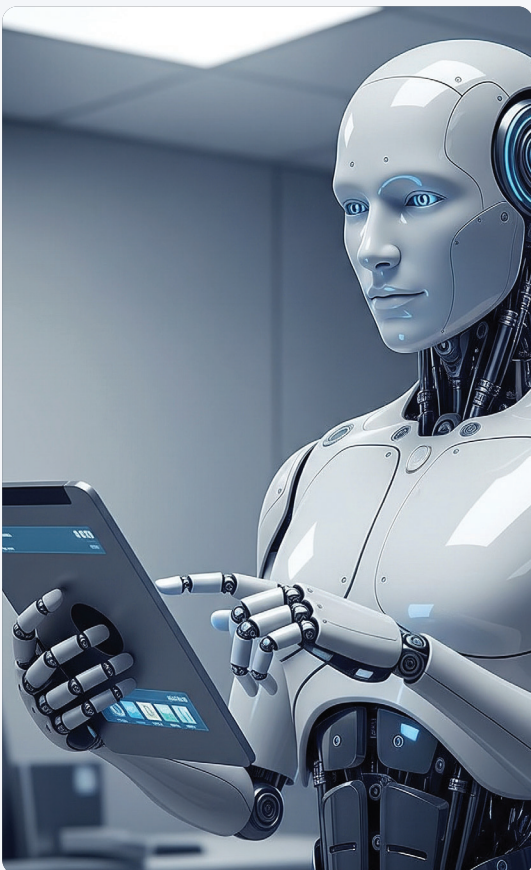
Similar to the removal of surtax on float glass, this measure targets the construction and manufacturing industries by reducing the cost of a fundamental raw material. This is intended to lower production costs for a wide range of goods, thereby supporting the MTBP's goal of promoting the Manufacturing Sector.

**Remove Customs Duty on Complete Knock Down (CKD) kits for assembly of motor vehicles including tipper trucks, Electric Vehicles (EVs), tricycles and tractors**

**Analysis:** 'Completely Knocked Down' (CKD) refers to kits containing all the necessary parts to assemble a vehicle. Importing CKD kits for local assembly is a common industrialisation strategy used globally to build a domestic automotive sector, as opposed to importing fully built-up (FBU) vehicles. Zambia has a documented history of assembling motor vehicles using CDKs (Livingstone Motor Assembly).

Assembly is a key element in developing skill and capacity for vehicle production. This proposal is a cornerstone of the government's industrial policy to establish and grow a domestic vehicle assembly industry, a key objective for the Manufacturing Sector under the MTBP. By making CKD kits duty-free, the government creates a significant cost advantage for local assembly over importing fully built units. This is a classic import-substitution strategy designed to attract investment, transfer technology, and create skilled jobs in the assembly of commercial vehicles (tipper trucks, tractors) and next-generation transport (EVs, tricycles).

The success of this measure depends on attracting significant investment in assembly plants. If investment is slow, the primary effect will be revenue loss from potential duties on CKD kits. There is also a risk of abuse, where kits are imported duty-free but are not used for genuine assembly, requiring strict monitoring and enforcement.



### Remove Customs Duty on milk pasteurisation machinery



**Analysis:** Pasteurisation is a heat-treatment process that kills harmful bacteria in milk, making it safe for consumption and significantly extending its shelf life. It is a critical technology for any country seeking to develop a formal, commercial dairy industry and move beyond informal, short-range milk sales.

This measure directly supports the agro-processing and livestock value chains, aligning with the MTBP's focus on value addition to the Agriculture, Livestock and Fisheries sector. By removing the duty on essential capital equipment, the government lowers the investment barrier for dairy farmers and processors to add value to raw milk. This promotes food safety, reduces spoilage, and helps develop a formal dairy industry capable of supplying national and potentially regional markets.

### Reduce Excise Duty on new Hybrid Motor Vehicles from 30 percent to 15 percent



**Analysis:** Hybrid vehicles combine a traditional internal combustion engine with an electric motor and battery. This allows the vehicle to run on electricity at low speeds and use the gasoline engine for higher speeds or to recharge the battery, resulting in significantly better fuel efficiency and lower carbon emissions.

This proposal is a green tax policy aimed at promoting the adoption of environmentally friendly vehicles. By halving the excise duty, the government makes new hybrid vehicles more affordable, supporting the Environmental Sustainability goals of the MTBP. This incentive is intended to encourage a gradual shift away from traditional gasoline and diesel engines, contributing to cleaner air and reduced reliance on fossil fuels.

## Compensating Measures

These measures are designed to broaden the tax base or protect domestic industries by increasing the cost of certain imported goods.

### Increase the Customs Duty rate to 25 percent from 15 percent on selected meat products



**Analysis:** Processed meats include a range of value-added products such as sausages, polony, bacon, ham, and canned meats. While Zambia has a large livestock population, the meat processing sub-sector is well developed and competes with established brands imported from the region.

This proposal is aimed at protecting and promoting the local livestock and meat processing industry, aligning with the MTBP's goals for the Agriculture, Livestock and Fisheries sector. The significant tariff hike is designed to make imported alternatives much more expensive, thereby creating a protected market for local producers and encouraging investment in value-addition facilities.

### Harmonise the Customs Duty rate on float glass to 25 percent from 15 percent



**Analysis:** As a key input for construction and manufacturing, the price of float glass has a direct impact on building costs and the price of finished goods like furniture and windows.

This measure, when read alongside the removal of the 5% surtax on float glass, represents a significant net increase in the tax burden on this product. This will substantially increase the cost of a basic building material, with inflationary effects on the construction industry.

**Increase Customs Duty on powdered milk, cheese, yoghurt and long-life milk**



**Analysis:** These are value-added dairy products that form a significant part of the consumer market. While Zambia has a growing fresh milk sector, the capacity to process this milk into products with a longer shelf life, like UHT milk, cheese, and milk powder, is still developing and faces competition from imported brands.

This proposal is a protectionist measure designed to support the domestic dairy industry, from farmers to processors, which is a key part of the Agriculture, Livestock and Fisheries sector under the MTBP. By increasing the cost of imported dairy products, the government aims to stimulate local production and encourage investment in the dairy value chain, complementing the incentive for pasteurisation machinery.

**Increase Excise Duty on single-use plastics to 100 percent from 30 percent**



**Analysis:** Background: Single-use plastics are disposable items like plastic bags, food containers, bottles, and cutlery that are used only once before being thrown away. They are a major contributor to land and water pollution, clogging drainage systems and posing a threat to wildlife.

This proposal is a critical environmental measure aimed at curbing plastic pollution. The steep increase in excise duty is designed to make single-use plastics prohibitively expensive. However, for such a punitive tax to be effective, it must be complemented by policies that promote the availability of credible and greener alternatives. Currently, options like multiple-use shopping bags or paper bags are not widely available in most Zambian retail outlets. Without a concerted effort to support the manufacturing and distribution of these alternatives, the measure risks being perceived as purely revenue-generating rather than a genuine attempt to change consumer behaviour. There is a risk of a public backlash if affordable and accessible alternatives are not readily available.

To enhance the credibility and effectiveness of this and other green levies, the government should consider establishing a dedicated Environmental Protection Fund. By ring-fencing the revenue from these levies, the funds can be transparently allocated to specific green causes, such as subsidising the production of reusable bags, investing in waste management infrastructure, and funding public awareness campaigns. This would transform the measure from a simple tax into a sustainable financing mechanism for environmental protection.

**Introduce, increase and harmonise the Selected Goods Surtax (SGS) on selected locally available goods**



**Analysis:** This measure targets a variety of goods where there is existing local production capacity, such as PVC hoses (used in agriculture, mining, and construction), carbon dioxide (used in the beverage and food industries), and certain steel products.

This is a broad revenue-raising and protectionist measure. By applying or increasing the surtax on a range of goods where local production exists, the government aims to both generate revenue and give local manufacturers a price advantage over imports.



## Housekeeping Measures

These are administrative amendments designed to improve efficiency, strengthen enforcement, and clarify the existing legal framework. As a preamble to this section, we note that expansive enforcement provisions have been proposed under housekeeping measures, without the enactment of a comprehensive Tax Administration Act (TAA). The TAA would typically serve to codify and balance the powers of the revenue authority with the rights and protections of the taxpayer, providing a single, harmonised framework for procedural fairness, dispute resolution, and administrative review. The introduction of these powerful, ZRA-centric tools through amendments to the Customs act, without the concurrent establishment of a TAA, creates a legal environment that appears heavily weighed in favour of the revenue authority. This situation reinforces the call from many within the business and legal communities for a TAA to be enacted urgently, in order to establish clear, fair, and predictable rules of engagement for all parties and to safeguard fundamental taxpayer rights against potential administrative overreach.

### Codification of Arrest Procedures under the Customs and Excise Act



**Analysis:** The existing Customs and Excise Act contains a notable legal lacuna: it grants officers general powers but lacks clear, specific procedural guidance for effecting an arrest when a suspected offence occurs. This ambiguity creates legal uncertainty for ZRA officers and potential vulnerabilities for the state in cases of legal challenge. The proposed measure seeks to rectify this by providing clear procedural guidance and aligning the Act with established arrest and warrant procedures. This alignment will almost certainly involve incorporating the principles and procedures outlined in Zambia's Criminal Procedure Code Act, which governs arrest by police officers.

For the ZRA, this measure provides a clear legal mandate and a defensible procedural framework for its customs officers. It removes operational ambiguity and empowers them to act with greater confidence and authority during enforcement actions at ports of entry, bonded warehouses, and during post-clearance investigations.

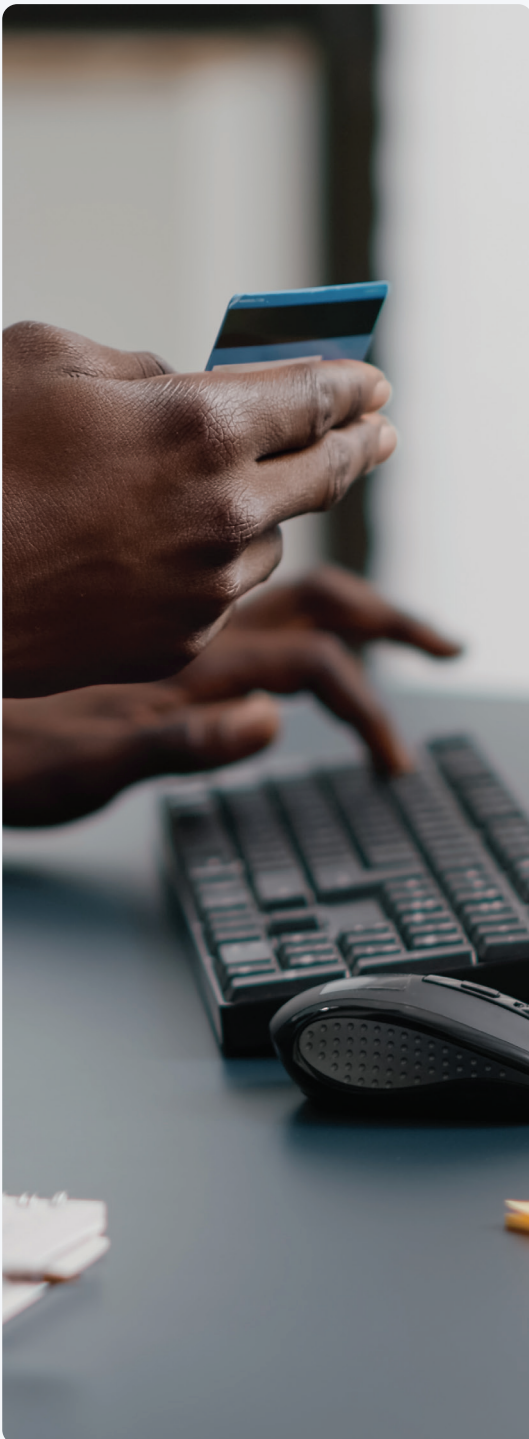
For individuals and businesses, the impact is more direct and severe. Suspects in customs related offences such as smuggling, under-declaration, or misclassification will now face the immediate prospect of arrest by ZRA officers themselves, rather than the ZRA needing to involve the Zambia Police Service. The delegation of arrest powers to a revenue agency, whose primary institutional culture and training are focused on revenue collection rather than criminal justice, presents several profound risks.

- First is the risk of abuse and overreach. Arrest is a significant deprivation of liberty and is governed by strict legal standards to prevent its use for intimidation or coercion. There is a tangible risk that the threat of arrest could be leveraged by officers to compel importers to accept disputed customs valuations or classifications, effectively transforming a civil tax dispute into a criminal matter to gain leverage.
- Second, this measure necessitates extensive training and robust oversight. ZRA officers will require comprehensive education on the legal thresholds for “reasonable suspicion,” the correct procedures for making an arrest, the preservation of evidence, and, crucially, the constitutional and statutory rights of the accused. Without this, the ZRA exposes itself to significant legal and financial liability for wrongful arrest, unlawful detention, and procedural violations.
- Third, the measure dangerously blurs the line between civil and criminal liability. Tax law is predominantly a civil matter, with disputes resolved through administrative appeals and tribunals. Introducing the power of arrest at the administrative level creates a potential conflict between the ZRA's mandate of revenue maximization and the criminal justice system's core principles of protecting individual liberty and ensuring a fair trial. The institutional key performance indicators for a customs officer are centered on revenue targets, which are not always aligned with the public safety and due process considerations that guide police conduct. This creates a scenario where an

### Codification of Arrest Procedures under the Customs and Excise Act

importer, engaged in a legitimate dispute over the valuation of a shipment, could be arrested on suspicion of making a false declaration. This immediately shifts the power dynamic from a commercial disagreement to a criminal confrontation, pressuring the importer to concede to the ZRA's position simply to secure their release, irrespective of the legal merits of their case. This could deter legitimate trade and investment, as importers may factor in a significant risk premium for arbitrary detention, ultimately increasing costs for Zambian businesses and consumers.

### Empowerment of the Commissioner General to Restrict Taxpayer Property and Bank Accounts



**Analysis:** The current enforcement framework for securing taxpayer assets is described by the government as fragmented and inefficient. To freeze a bank account or seize property, the ZRA must rely on external agencies, primarily the Drug Enforcement Commission (DEC) for seizures and the Financial Intelligence Centre (FIC) for account freezes. This multi-agency process, while providing inherent checks and balances, leads to substantial delays that can allow non-compliant taxpayers to dissipate assets before they can be secured. The proposed measure seeks to streamline this process by granting the Commissioner-General the direct and unilateral power to issue Restraining Notices against a taxpayer's property and bank accounts. This proposal should be transformative for the ZRA's enforcement capabilities. It would allow the authority to act with unprecedented speed, moving to secure assets it believes are at risk of being moved or hidden, thereby drastically improving its ability to collect on eventual tax assessments. For taxpayers, the impact is immediate and potentially catastrophic. A business or individual could find their bank accounts frozen and their property encumbered by a simple administrative notice from the ZRA, without any prior judicial review or court order. This action could instantly paralyze a business, preventing it from paying salaries, suppliers, and other creditors, and potentially triggering insolvency even if the underlying tax dispute is later resolved in the taxpayer's favor.

The concentration of such a powerful quasi-judicial function within an administrative, revenue-collecting body raises grave concerns. The primary risk is the lack of due process. The measure appears to circumvent the judiciary, granting an administrative official the power to effectively seize assets that are unrelated to importation, a function traditionally reserved for the courts. This raises significant constitutional questions regarding the separation of powers and the protection of property rights.

There is also a high potential for error and abuse. An erroneous administrative freeze, perhaps based on a flawed audit or a simple clerical error, could cripple a legitimate business beyond recovery. To mitigate this, the legal framework must provide for an immediate, accessible, and independent appeal mechanism. The burden of proof and legal action is shifted entirely onto the taxpayer, who must fight to reclaim access to their own assets after the fact.

This measure represents a significant centralization of power, bypassing the checks and balances inherent in the current multi-agency system. While the existing process may be inefficient, its very fragmentation provides a form of passive oversight, as the ZRA must justify its request to another agency (like the FIC or DEC) which operates under its own distinct legal mandate and thresholds. The proposed system replaces this with administrative expediency.

The FIC's power to freeze an account, for instance, is typically for a short, statutorily defined period (e.g., 15 days) to allow for analysis before law enforcement is involved, and there is a clear judicial appeal process. The proposed ZRA power, as described, lacks



### Empowerment of the Commissioner General to Restrict Taxpayer Property and Bank Accounts

these specified safeguards, creating a major source of legal and commercial risk. This could fundamentally alter the balance of power in tax disputes, compelling businesses to settle on unfavorable terms simply to maintain liquidity and operational survival, thereby undermining the right to a fair hearing.

### Suspension of Tax Refunds for Taxpayers Under Investigation



**Analysis:** Under the current legal framework, a taxpayer's eligibility for a tax refund in one area (e.g., a VAT refund) is not affected by an ongoing investigation into another potential tax liability. The government perceives this as a loophole that undermines revenue protection, as a taxpayer under investigation could receive a substantial refund and then dissipate those funds before an adverse finding is made, frustrating future recovery efforts. The proposed measure aims to close this gap by empowering the Commissioner-General to suspend or withhold any tax refunds due to a taxpayer who is under investigation for any suspected offence under any tax act.

For the ZRA, this measure provides a powerful tool for revenue protection. It allows the authority to effectively use a taxpayer's own money (in the form of a due refund) as security against a potential, but as yet unproven, future liability. This significantly improves the ZRA's position in ensuring the collection of any taxes ultimately found to be due.

For taxpayers, particularly businesses in sectors that rely on regular refunds for working capital, the impact can be severe. A refund is not a government handout; it is the return of overpaid tax or the reimbursement of input VAT, which is legally the taxpayer's property. This measure allows for the indefinite withholding of these funds based merely on the initiation of an investigation, not on a confirmed assessment or judgment. This can create significant and unpredictable cash flow constraints, disrupting business planning and operations. This is against a backdrop of already significantly delayed refunds for businesses.

This measure is fraught with legal and economic risks that challenge fundamental principles of tax administration. It can be seen as a violation of the "presumption of innocence" that underpins the justice system. The measure effectively penalises a taxpayer by withholding their funds based on suspicion alone, before any wrongdoing has been established through the investigative and appeals process.

Should this measure be passed, a likely unfortunate event, there is need for government to specify a maximum duration for an investigation during which refunds can be withheld. A protracted investigation, whether due to complexity or administrative inefficiency, could result in a taxpayer's funds being frozen for years, causing irreparable financial harm to an otherwise viable business.

The measure also creates a risk of disproportionate impact. A minor investigation, for example, into a small discrepancy in PAYE withholdings, could be used as a justification to suspend a much larger and entirely unrelated VAT refund. This turns the measure into a punitive tool that is not proportional to the suspected offence.

This proposal weaponises the tax refund process, transforming it from a routine administrative function into a tool of coercive compliance. It fundamentally alters the nature of a tax investigation by imposing an immediate financial penalty, the withheld refund, at the very beginning of the process. A comparison with international best practices, such as the U.S. Treasury Offset Program (TOP), is instructive. The TOP is used to offset tax refunds against confirmed, past-due debts owed to government agencies. It is a collection tool for established liabilities,



### Suspension of Tax Refunds for Taxpayers Under Investigation



not a mechanism to hold refunds hostage during an investigation into a potential liability.

The budget proposal deviates significantly from this principle of offsetting established debts. This could have a particularly chilling effect on key sectors of the Zambian economy, such as mining and non-traditional exports, which are vital for economic diversification but are also heavily reliant on timely VAT refunds to maintain liquidity and fund operations. If exporters perceive a high risk of their working capital being arbitrarily frozen due to a minor, unrelated tax query, it could discourage investment and undermine a key pillar of the government's own economic growth strategy.

### Submission of Unresolved Tax Liabilities to the Credit Reference Bureau



**Analysis:** The confidentiality of taxpayer information, enshrined in the secrecy clauses of the ZRA Act, has historically prevented the ZRA from sharing data with third-party commercial entities. This has limited the ZRA's enforcement toolkit to direct actions against the taxpayer. This measure proposes a significant policy shift by amending these secrecy clauses to permit the targeted disclosure of unresolved tax debts to a Credit Reference Bureau. This would allow the ZRA to report tax non-compliance to the credit bureau.

For the ZRA, this represents a highly efficient, low-cost, and powerful new enforcement mechanism. The threat of a damaged credit rating, which can severely restrict a business's or individual's access to loans, trade credit, and other financial services, creates a compelling incentive to resolve tax liabilities promptly. It externalizes enforcement pressure, shifting it from the ZRA to the taxpayer's own banks and commercial partners.

For taxpayers, the implications are profound. An unresolved tax liability, even one that is being legitimately disputed through the formal appeals process, could be reported to a credit bureau, causing significant and immediate damage to their creditworthiness. This could lead to the recall of loans, an increase in the cost of capital, and a general loss of confidence from suppliers and customers, impacting the very viability of a business.

For the Credit Reference Bureau, this introduces a new and sensitive category of data. The bureau will need to develop robust systems and protocols to receive, verify, and incorporate ZRA data accurately and to handle disputes and corrections in accordance with the Credit Reporting Act.

The primary risk lies in the definition of an "unresolved tax liability." If this term is interpreted broadly to include liabilities that are under formal objection or appeal, the ZRA would be penalising a taxpayer for exercising their statutory right to challenge an assessment. This would undermine the fairness of the entire tax dispute resolution system. The process for ensuring the swift removal of a negative listing once a dispute is resolved in the taxpayer's favor, or the debt is settled, must be seamless and effective to prevent lasting and undue harm.

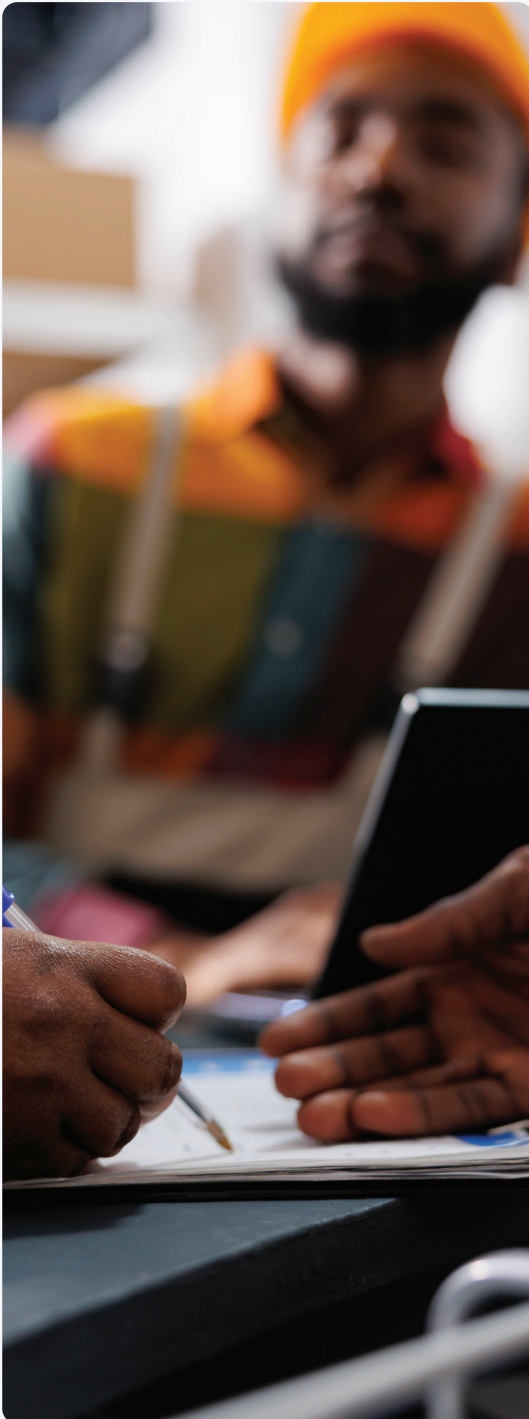
There is also a risk of disproportionate consequences. A relatively small and disputed tax debt could trigger a negative credit report that has a disproportionately large impact on a company's ability to secure major financing or win a critical contract, creating a penalty far in excess of the original amount in question.

This approach could create a new form of systemic risk. If the ZRA's data reporting is flawed, as has been the case over the past few years with errors in TaxOnline reconciliations and accounts, or if a large

### Submission of Unresolved Tax Liabilities to the Credit Reference Bureau

number of businesses are suddenly reported due to a systemic issue or a change in ZRA policy, it could trigger a sudden credit contraction as banks react to the new negative information, potentially impacting even otherwise healthy and compliant businesses.

### Requirement of a Valid Tax Clearance Certificate for all Customs Incentives



**Analysis:** The government offers a range of customs incentives, such as duty reliefs, rebates, and exemptions, to promote specific economic activities, including investment in priority sectors, manufacturing, agriculture, and tourism. These incentives are critical policy tools for industrial development and economic diversification. The proposed measure seeks to make access to all such Customs and Excise incentives conditional upon a taxpayer's overall compliance status, as demonstrated by their possession of a valid Tax Clearance Certificate (TCC).

This measure provides the ZRA with a powerful lever to enforce broad tax compliance. Businesses that are heavily reliant on customs incentives for their operational viability, for example, a manufacturer importing raw materials duty-free or an exporter claiming a duty drawback, will be compelled to ensure that all their other tax affairs, including PAYE, VAT, and Corporate Income Tax, are in perfect order. Failure to do so could result in the immediate loss of these valuable benefits.

A key risk is the potential for this measure to undermine the government's own industrial policy. The primary purpose of a customs incentive is to encourage a specific economic behaviour, such as investing in a Multi-Facility Economic Zone (MFEZ). By linking this incentive to general tax compliance, the measure could deny the benefit to a company because of an unrelated tax dispute, thereby frustrating the original policy objective of promoting that investment. The measure also raises questions of proportionality. A minor, unresolved compliance issue, perhaps involving a small amount of money or a legitimate difference of legal interpretation, could lead to the denial of a major, business-critical customs incentive. This represents a disproportionately severe penalty that may not be commensurate with the nature of the underlying compliance issue.

As a matter of great concern, this proposal effectively transforms customs incentives from purely economic policy instruments into tools of broad tax enforcement. It signals a significant policy shift: the government's priority is no longer just to promote certain industries, but to ensure that only fully compliant players within those industries receive state support. This creates a "good standing" requirement that transcends the specific policy goal of the incentive itself. For investors, this introduces a new layer of strategic uncertainty. An investor might be attracted to Zambia by a specific, generous incentive for the manufacturing sector.

However, they now face the additional risk that this key financial benefit which may be central to their investment thesis could be withdrawn at any time due to an unrelated and potentially complex tax dispute, such as a disagreement over transfer pricing. This adds a significant regulatory risk to investment decisions that did not previously exist.

Clarify that the Customs Duty exemption on machinery and equipment for mining and exploration applies to geothermal, oil and gas exploration.



**Analysis:** Zambia's economy has historically been dependent on copper mining. To secure the country's long-term economic future, the government has set an ambitious target to increase annual copper production to 3 million tonnes by 2031. Alongside this, national planning documents like the 8NDP and the MTBP emphasize the need to diversify the economy, including within the extractive sector itself, by promoting exploration for new energy sources like geothermal power, oil, and natural gas.

This proposal is a critical signal to potential investors in Zambia's mining and energy exploration sector. By explicitly clarifying that the customs duty exemption on capital equipment extends beyond traditional mining to include geothermal, oil, and gas exploration, the government is providing essential legal and fiscal certainty. While the focus on the 3 million tonnes copper production target remains central, this clarification ensures that the supportive fiscal regime for capital importation is also available to high-risk, high-reward exploration ventures in hydrocarbons and renewable energy. It is a strategic move to attract the significant foreign direct investment required to unlock new resource potential and reduce long-term economic reliance on a single commodity.

Allow for the immediate disposal of perishable or dangerous goods forfeited to the State.



**Analysis:** When goods are seized by customs, they can include items that pose logistical or safety challenges, such as fresh fruits and vegetables that will rot, or hazardous chemicals that are unsafe to store for long periods.

This proposal is a pragmatic risk management measure. Currently, the ZRA must wait for goods to be formally forfeited before disposal, which can be time consuming and costly for perishable or hazardous items. This change allows for swift action by enabling more efficient management of seized goods.

However, without robust and transparent procedural safeguards, this power could be misused. There is a risk of goods being incorrectly classified and disposed of prematurely, leading to financial loss for the owner. A more significant operational risk is the potential for smuggling and illicit market entry. If the process for documenting the "disposed of" goods is not watertight, these items could be diverted and find their way into the local supply chain.

Allow use of the Mineral Valuation Certificate for determining FOB value.



**Analysis:** The valuation of mineral exports is critical for ensuring that Zambia receives the correct revenue in the form of export duties and taxes. Historically, discrepancies in valuation methods between different government agencies can lead to disputes and revenue leakage.

This proposal aims to harmonize the valuation of mineral exports between the ZRA and the new Minerals Regulation Commission. By allowing the Commission's certificate to be used, it seeks to create a single, authoritative valuation point. However, if the new Minerals Regulation Commission is inefficient or slow in issuing certificates, it could cause significant delays in the export process and also creating a new administrative bottleneck.



Explicitly provide for non-collection of fees on the electronic Certificate of Origin



**Analysis:** A Certificate of Origin (CO) is a crucial trade document that certifies the country in which a good was produced. It is used by customs authorities to determine whether goods are eligible for preferential duty rates under trade agreements. The process has traditionally been paper-based and involved a fee.

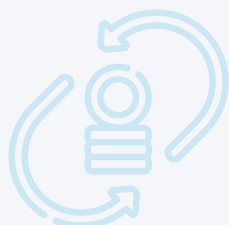
This proposal is a key trade facilitation measure that incentivises the adoption of digital processes. By making the electronic Certificate of Origin (e-CO) free, the government is encouraging exporters to move to a more efficient, faster, and less costly electronic system.

Replace the reference to use the media of commercial bank rates with the Bank of Zambia (BOZ) spot rate on valuation of imports



**Analysis:** This is a fundamental procedural change that is aimed at ensuring that the value of imported goods is reflective of the market prices prevailing at the time of importation. Currently the exchange rate used when valuing imported goods is generally updated every two weeks using the median of commercial bank rates. However, this change needs to be proactively managed to avoid unwarranted delays in the real time foreign exchange rate updates, thereby ensuring consistency in the treatment of all imported transactions. The proactive management of this process will ensure that there are no significant discrepancies of the final tax liabilities of imports, preventing situations that could lead to disputes with the trading community and questions of compliance with WTO valuation principles.

Harmonise Pre-Clearance Time Limits and Reduce the Payment Window for Customs Duties



**Analysis:** These measures are intended to streamline the customs clearance process and accelerate revenue collection. They propose to harmonise the time limits for pre-clearance procedures and, crucially, reduce the window for the payment of duties to three calendar days after an assessment has been issued.

These measures introduce significant operational risks for importers, stemming directly from the mismatch between a rigid calendar day deadline and the operational realities of the Zambian banking system. The Zambian banking system does not operate on a 24/7 basis. If a customs assessment is issued on a Friday, the three-calendar-day deadline expires on Monday. This leaves the importer with only one effective business day to arrange financing and execute the payment. A public holiday further compresses this timeline, making compliance extremely challenging. Banking and customs payment platforms can also experience outages. When these occur over a weekend, technical support is often unavailable, making it impossible for an importer to resolve the issue and make payment before the deadline. Failure to meet this tight deadline, even for reasons beyond the importer's control, will result in penalties, including storage and demurrage charges.

The goods will not be released until payment is confirmed, causing costly delays that disrupt supply chains and can lead to stockouts. This creates a high-risk environment where importers can be penalised for systemic issues rather than their own negligence.

Provide for the annual renewal of the red book issued for motor vehicles imported under these provisions



**Analysis:** The term “red book” is commonly understood to refer to the customs registration or clearance certificate for a motor vehicle, particularly one imported under a duty rebate scheme, such as for a Public Benefit Organisation (PBO) or other qualifying entity. Currently, once such a vehicle is cleared, ongoing monitoring of its use can be challenging. This measure aims to improve compliance by introducing a requirement for the annual renewal of this registration document.

The renewal process will allow the ZRA to verify that the vehicle is still owned by the qualifying entity and is being used for its intended, rebated purpose. It provides a mechanism to prevent abuse, where a vehicle might be imported duty-free for a specific purpose (e.g., for a charitable project) but is subsequently sold or used for commercial purposes without duties being paid.

For the owners of these vehicles, this introduces a new annual administrative requirement. To renew the “red book,” they will need to demonstrate their continued eligibility for the rebate each year. This may involve providing documentation on the vehicle’s usage and the organization’s ongoing activities. Failure to meet the renewal criteria could render them liable for the full customs duties that were initially rebated.

Ad valorem assessment and re-importation restrictions for temporarily imported vehicles



**Analysis:** The current customs framework for vehicles under Temporary Importation Permits (TIPs) has a significant weakness: it does not explicitly prescribe how duties should be calculated when such a vehicle is eventually cleared for home consumption (i.e., permanently imported). This ambiguity creates a loophole that allows importers to clear new or high-value vehicles using lower, specific duty rates (based on factors like engine size) rather than an ad valorem rate, which is based on the vehicle’s actual transactional value. This measure aims to close this loophole by explicitly requiring ad valorem assessment for new vehicles and to prevent serial abuse of the TIP facility by introducing a five-year restriction on the re-importation of the same vehicle under temporary admission.

Allowance for Temporary Breaks in the Returning Resident tax incentive

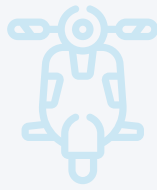


**Analysis:** The Returning Resident tax incentive is a key provision within the Customs and Excise (General) Regulations designed to encourage Zambians living abroad to return home permanently. It provides for a remission of duty on household and personal effects, including one motor vehicle per household, for individuals who have been resident outside Zambia for a specified period, currently understood to be not less than four years. However, the current application of this regulation is exceedingly rigid. It has been interpreted to mean that the qualifying period of residence abroad must be continuous and uninterrupted.

Consequently, Zambian citizens who make any temporary visit home during this four-year period—for instance, for a family holiday, to attend a wedding, or for a short-term work assignment—are deemed to have broken their period of foreign residency and thus forfeit their eligibility for the entire incentive. This punitive interpretation acts as a significant disincentive for those contemplating a permanent return.

The proposed measure directly addresses this anomaly. It introduces a provision to allow for a temporary visit or break of not more than six months within the four-year qualifying period without the individual losing their eligibility for the duty rebate.

### Provide for a definition of high-capacity motorcycles



**Analysis:** This measure aims to introduce a specific definition for ‘high capacity motorcycles’ into the Act. The purpose is to create a clear legal distinction between different types of two-wheeled vehicles for valuation and duty assessment purposes. By defining what constitutes a ‘high capacity’ motorcycle, the ZRA can apply a different, likely higher, valuation methodology compared to lower-capacity or utility-focused motorcycles, such as farm bikes.

This measure is designed to prevent the undervaluation of high-performance or luxury motorcycles and ensure that duties collected are commensurate with the vehicle’s actual market value and use.

### Expand Bond Coverage to Include Other Government Agency Fees



**Analysis:** These two measures are designed to work in tandem to safeguard government revenue. They expand the scope of the bonds or guarantees required for customs carriers and bonded warehouses to cover not only customs duties and taxes but also any other government fees that ZRA collects on behalf of other agencies.

Currently, if an importer defaults, the bond covers the ZRA’s revenue, but fees due to other agencies are often lost. This change closes that loophole by making the carrier or warehouse operator liable for all government-related charges.

### Exempt fees for electronic Certificate of Origin

**Analysis:** This is a direct financial incentive to encourage traders to adopt digital processes. By making the electronic Certificate of Origin (e-CO) cheaper than the manual one, the measure promotes efficiency and aligns Zambia’s practices with the WTO’s Trade Facilitation Agreement.

## Customs and Trade - A Strategic Outlook for Commercial Stakeholders

### For Businesses

For businesses, the budget proposals require careful strategic navigation. The proposals introduce opportunities as well as new layers of compliance risk.



#### Compliance and Risk

The heightened enforcement posture and tighter administrative rules significantly increase compliance risk. The rigid one-year deadline for refunds and the potential for indefinite seizure of goods necessitate flawless documentation and proactive engagement to avoid costly delays.



#### Supply Chain and Sourcing

The tariff changes will require many businesses to re-evaluate their supply chains. Importers of finished goods in targeted sectors will face higher duties, potentially making local sourcing or investment in domestic assembly more attractive to benefit from the lower duty on inputs. Businesses should start evaluating their supply chains and undertaking cost/best fit comparison exercises.



#### Opportunities

The budget’s policy direction creates clear investment opportunities in agriculture, logistics, and renewable energy, where businesses aligned with these national objectives will benefit from a more favourable fiscal environment.



## For Policy Implementation (Ministry of Finance and ZRA)

**Enact the Tax Administration Act (TAA)**

The impact of housekeeping measures in the 2026 budget necessitates a critical examination of the existing legal framework protecting taxpayer rights. While the ZRA has a Taxpayer's Charter, it is not a legal instrument. The absence of a comprehensive, legally binding TAA leaves these rights vulnerable to erosion. Such an Act is crucial to ensure that new measures, aimed at improving efficiency and compliance, do not inadvertently undermine the fundamental principles of fairness and transparency in the nation's tax system.

**Develop and Publish Procedural Safeguards**

The new powers to dispose of perishable goods and hold goods under security indefinitely must be balanced with strong procedural safeguards. The ZRA should publish clear internal guidelines and establish an accessible review or appeals mechanism for affected traders.

**Conduct Comprehensive Stakeholder Engagement**

Before enacting the enabling legislation, the Ministry of Finance and the ZRA should conduct extensive consultations with the private sector to identify potential unintended consequences and refine the measures to mitigate negative impacts on trade flows.

**Adjustment of Mobile Money Levy Rates**

**Analysis:** The proposal involves a substantial increase in the mobile money levy across all seven of its value-based tiers as a revenue raising measure. The proposed changes are not uniform across the board. For the lowest four tiers, covering transactions up to K1,000, the levy is set to double. For higher-value transactions, the increases are even more dramatic. The levy on transactions between K1,000 and K3,000 is set to increase by 150% (from K1.60 to K4.00), while the levy for the K3,000 to K5,000 band will increase by 275% (from K2.00 to K7.50). This structure suggests an attempt to extract significantly more revenue from the entire spectrum of mobile money users.

A core flaw in the levy's design is its inherently regressive nature. While the absolute levy amount increases with the transaction value, the levy as a percentage of the amount transferred is highest for the smallest transactions and decreases as the transaction value rises. This structure systematically penalises the poor.

For example, under the proposed rates:

- A K150 transaction incurs a K0.32 levy, which is 0.21% of the transaction value.
- A K1,000 transaction incurs a K2.00 levy, which is 0.20% of the transaction value.
- A K10,000 transaction incurs a K8.00 levy, which is only 0.08% of the transaction value.

This design disproportionately burdens low-income individuals, who are transaction-intensive but value-poor. They typically make frequent, small-value payments for daily necessities, transport, and food. A low-income worker who needs to make ten separate K50 payments (totalling K500) would pay the K0.32 levy ten times, for a total cost of K3.20. In contrast, a wealthier individual making a single K500 payment would pay the levy only once, at a cost of K0.80. The levy, therefore, extracts four times more in fees from the poorer user for the same total value transacted. This structural regressivity directly contradicts the government's stated aspiration to reduce income inequality as outlined in the Eighth National Development Plan.

Furthermore, research consistently shows that existing transaction fees are already a significant barrier to the adoption and frequent use of digital financial services among rural and low-income populations in Zambia. Adding a government levy on top of these fees will only exacerbate this financial exclusion.

### Clarification of 'Person-to-Person Transfer' Definition

**Analysis:** The current legislation defines a “Person-to-person transfer” as “a transfer of electronic money from one person to another person”. The ZRA notes that this definition creates a potential loophole in an instance where the initiator of the transaction was both the sender and recipient of the electronic money, the levy would not be applied. This primarily refers to transfers from an individual’s mobile money wallet to their own bank account, or from one of their mobile wallets to another. The proposed measure seeks to close this perceived loophole by amending the definition to clarify that a Person-to-Person Transfer includes a transfer of electronic money “from one person to another or to the same person”. The explicit goal is to ensure that such transfers are not excluded from the levy, thereby maximizing the tax’s reach and revenue collection.

This definitional change, far from being a simple clarification, effectively constitutes a new tax on financial integration. It penalises the seamless movement of funds between the mobile money ecosystem and the formal banking system. The ability to easily transfer money from a mobile wallet to a bank account and vice versa is a hallmark of a mature and efficient digital financial system. It allows for greater flexibility, security, and utility for consumers and businesses. For example, a small merchant can move their daily digital earnings from their mobile wallet into a formal business bank account for safekeeping, accounting, and to potentially access credit. An individual can pull funds from their salaried bank account into their mobile wallet to facilitate small daily payments where cards are not accepted.

By imposing the levy on these “wallet-to-bank” and “bank-to-wallet” (via wallet pull) transfers, the measure introduces a friction cost. It erects a financial barrier between the two most important components of Zambia’s financial infrastructure. This actively discourages the interoperability that regulators and development partners, through initiatives like the National Financial Switch (NFS), have been working to promote. Instead of fostering an integrated system, it risks creating financial silos, trapping funds within the mobile money ecosystem.

The other significant unintended consequence of this measure is the disincentive it creates for formal savings. Faced with a levy every time they wish to move money from their transactional mobile wallet to a more secure, interest-bearing formal savings account, users may choose to simply “store” their value in the mobile wallet to avoid the cost. Mobile money accounts are primarily designed as transactional instruments, not as long-term savings vehicles. They typically offer no interest and may have lower levels of consumer protection compared to fully regulated bank deposits. This policy, therefore, actively works against the crucial development goal of moving citizens beyond basic financial access (having an account) towards deeper financial inclusion (using accounts for savings, credit, and insurance).



## Proposed changes to the Incentive Priority Regime

### Extend Energy Priority Sector Incentives to Transmission and Distribution of Electricity

**Analysis:** Zambia's economic development is intrinsically linked to the reliability and reach of its electricity supply. However, the country faces significant challenges with its power infrastructure, which is characterized by insufficient capacity, aging assets, and high transmission losses, frequently resulting in load shedding that hampers industrial productivity. While the electricity sector was liberalized in 1995, the state-owned utility, ZESCO, continues to own and operate the vast majority of the country's transmission and distribution network. This has been cited as a major impediment to private investment, as new power producers have limited and uncertain access to the grid to deliver electricity to customers.

Recognizing this, the government's Integrated Resource Plan (IRP) outlines a massive, long-term investment strategy for the power sector, including an 82% expansion of the transmission network by 2050, requiring an estimated USD 1.4 billion by 2030 alone. The current incentive framework, under Statutory Instrument No. 47 of 2023, designates electricity generation as a priority sector, granting customs duty relief on imported machinery and equipment for power stations. This creates a critical policy gap: incentivizing power generation such as renewables is ineffective if the infrastructure to transmit and distribute that power is inadequate. This proposed measure aims to close that gap by extending the same customs duty relief to projects focused on electricity transmission and distribution.

This measure is a strategic intervention designed to de-risk and encourage private investment in a critical segment of the energy value chain. For investors, the direct impact is a significant reduction in the capital expenditure required for transmission and distribution projects. By removing customs duties on essential imported equipment, such as high-voltage transformers, conductors, switchgear, and substation components, the measure lowers the upfront cost and improves the overall financial viability of these long-term infrastructure investments.

For the energy sector and the broader economy, the impact is potentially transformative. The incentive is expected to accelerate the modernisation and expansion of the national grid, helping to alleviate the transmission bottlenecks that currently constrain the power supply. A more robust and efficient grid will reduce technical losses, improve reliability, and is a prerequisite for integrating the new, large-scale renewable energy projects (particularly solar and wind) that are central to Zambia's energy diversification strategy. This, in turn, will enhance energy security and support the government's ambition to establish Zambia as a regional power trading hub.





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