TAX EXPENDITURES COUNTRY REPORT

Zambia

Evaristo Mwale

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CEP council on economic policies

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List of abbreviations

CIT	Corporate Income Tax
GDP	Gross Domestic Product
GTED	Global Tax Expenditures Database
GTETI	Global Tax Expenditures Transparency Index
MFEZ	Multi-Facility Economic Zone
MoFNP	Ministry of Finance and National Planning
MSME	Micro, Small, and Medium Enterprise
PBO	Parliamentary Budget Office
PIT	Personal Income Tax
SSA	Sub-Saharan Africa
TE	Tax Expenditure
TPRC	Tax Policy Review Committee
USD/$	United States Dollar
VAT	Value Added Tax
ZDA	Zambia Development Agency
ZMW/K	Zambian Kwacha
ZRA	Zambia Revenue Authority

Executive summary

The 2023 Tax Expenditures Report, published by the Ministry of Finance and National Planning, estimates that Zambia forfeited revenue equivalent to 1.5 percent of GDP, representing 7.5 percent of total taxes and levies collected in the year. It is important to note that this figure excludes Value Added Tax (VAT)-related tax expenditures, which, according to the Global Tax Expenditures Database (GTED), are a substantial source of revenue forgone. Tax expenditures in Zambia are delivered through a variety of mechanisms, including reduced rates, exemptions, and suspensions, applied across both domestic and trade-based taxes.

Transparency: Zambia published its first tax expenditure report, covering fiscal years 2022 and 2023, in December 2024, a milestone toward improving fiscal transparency. To build on this progress, while reinforcing the legal requirement for timely disclosure under the Public Finance Management Act of 2018, Zambia should institutionalise mandatory annual reporting on the cost and effectiveness of tax expenditures, thereby strengthening continuity and public accountability and ensuring this is not a once-off effort.

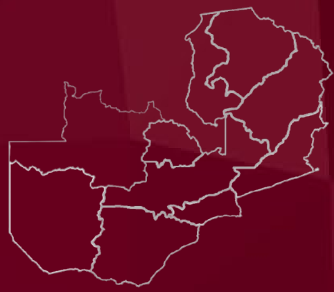
Complex landscape: Over the years, Zambia has adopted a range of tax incentives through rate adjustments, exemptions, and deferrals—to encourage investment, promote industrial growth, and stimulate trade. These policy tools reflect the government's broader commitment to using the tax system as a lever for achieving inclusive and sustainable development. However, while these measures serve noble goals, they also add complexity by introducing different rates, exemptions, and rules that make the system harder for taxpayers to navigate.

Evaluation challenges: The absence of a comprehensive evaluation framework requiring regular assessments limits systematic review of TEs. With only one tax expenditure report produced to date, limited historical data also restricts possible evaluations of the economic and fiscal impact of tax incentives. This undermines the ability to determine whether current tax expenditures are achieving their intended policy objectives.

Fiscal sustainability: The fiscal cost of tax expenditures, coupled with Zambia's mounting debt obligations, pose risks to fiscal sustainability. Without careful monitoring and rationalisation, tax expenditures could erode the domestic revenue base, compromising the country's ability to meet its development goals.

Policy recommendations:

- Mandate and institutionalise the annual publication of a comprehensive Tax Expenditure Report as part of the National Budget process to support evidence-based policy and fiscal accountability.
- Publish comprehensive reports by December 31 each year, in time to inform the national budget.
- Include detailed disclosures on the scope, legal basis, objectives, and outcomes of each tax expenditure to enable performance evaluation and policy refinement.
- Establish an inter-agency working group (including Zambia Revenue Authority (ZRA), MoFNP, and Zambia Development Agency (ZDA)) to coordinate the identification, recording, and review of TEs.
- Subject major tax expenditure provisions to periodic cost-benefit analysis to assess their effectiveness and fiscal trade-offs.



Zambia at a glance (2023)

Population	GDP	GDP/capita
19.7 (in million)	**K557.4** $ 23.6 (in billion)	**K28.3** $ 1.4 (in thousands)

17.3% **(of GDP)** Total taxes	**28.7%** **(of GDP)** Central government spending	**133.4%** **(of GDP)** Public debt

TAX STRUCTURE

Zambia's tax revenue in 2023 amounted to K92.4 billion and 75.7% of total government revenue. Income taxes had the highest contribution to total taxes contributing 48.8%, followed by Value Added Tax (VAT). VAT and customs and excise duties exceeded their respective parliamentary targets by 12.7% and 0.8%, while income taxes underperformed against their targets, recording a negative variance of 10.5%.

Tax revenue, 2023

Tax type	Billion K	Billion $	% Total
Income taxes	45.1	2.2	48.8
Value Added tax	32.9	1.6	35.6
Customs and Excise Duties	13.9	0.7	15.0
Total taxes	**92.4**	**4.6**	**100.0**

Dollar rate used: K20.2/US Dollar

Source: MoFNP (2023a)

Government revenue

Table 1 provides a snapshot of government finances in 2023, revealing that the total revenue and grants amounted to K122.1 billion, surpassing the planned target of K113.3 billion. This variance in revenue is attributed to higher-than-expected collections in VAT. The fiscal landscape shown in Table 2 further reflects both achievements and challenges in revenue generation for the Zambian government during this period.

Table 1: Revenue, actual vs. target, 2023 (billion Kwacha)

Government operations	2023 Actual	2023 Target	Variance	Variance percentage
Tax revenue	92.4	93.8	-1.4	-1.5%
Non-tax revenue	23.7	17.9	5.8	32.4%
Total revenue	*116.1*	*111.6*	*4.4*	*4.0%*
Grants	6.0	1.7	4.3	254.7%
Total revenue and grants	**122.1**	**113.3**	**8.8**	**7.7%**

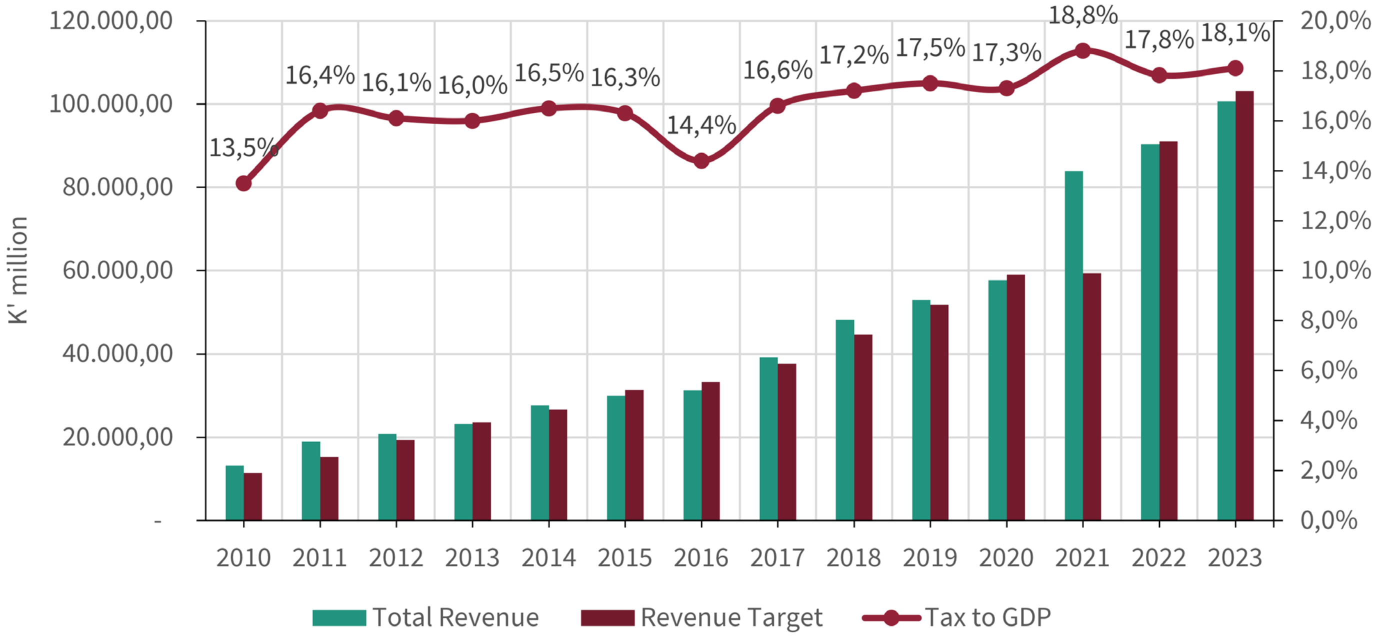
Source: MoFNP, 2023a

Tax composition and trends 2010 – 2023

Figures 1 and 2 present an overview of tax revenue as a percentage of GDP and net revenue, along with the structure of tax revenues in Zambia from 2010 to 2023. Over this period, both total revenue and revenue targets have shown a steady upward trend, with significant increases observed from 2020 onwards. The tax-to-GDP ratio improved from 13.5% in 2010 to 18.1% in 2023, peaking at 18.8% in 2021. Despite some fluctuations, particularly a notable dip to 14.4% in 2016, the general trend indicates improved tax revenue performance relative to the size of the economy. The narrowing gap between actual revenue and targets in recent years suggests enhanced revenue administration and policy effectiveness.

> “ *Strengthening the legal and institutional foundations, broadening the scope of information disclosed, and integrating systematic evaluation would enhance Zambia’s alignment with international good practices and deepen its commitment to evidence-based fiscal management.*

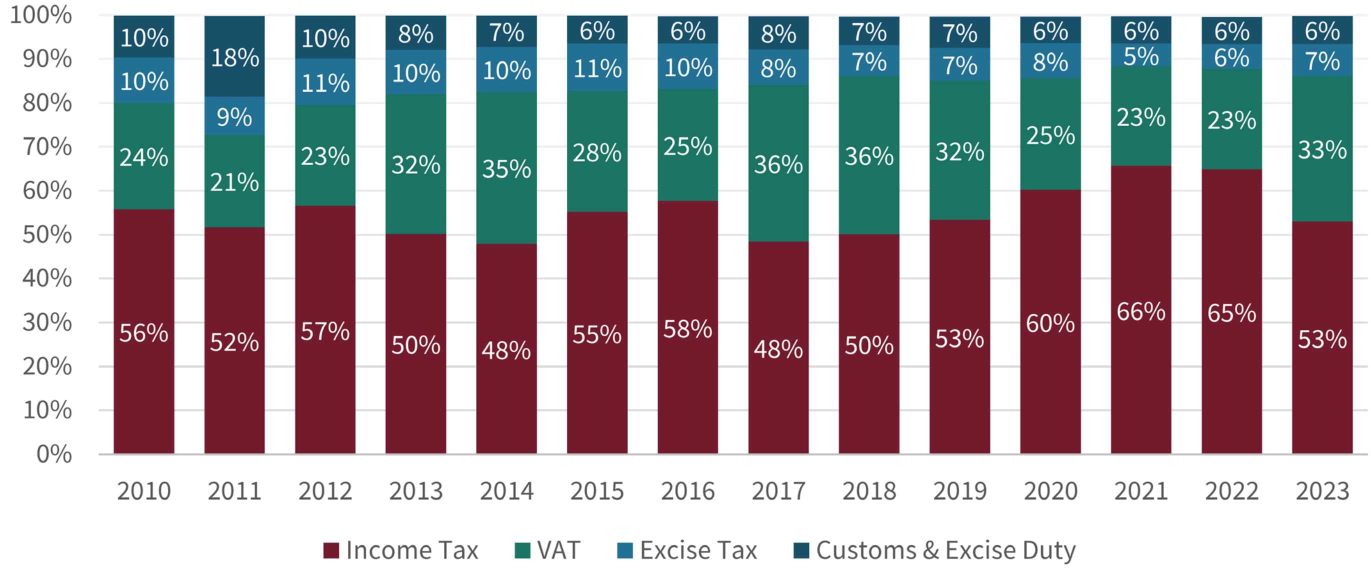
Figure 1: Tax revenue as a percentage of GDP and net total revenue in millions of Kwacha, 2010-2023[1]



Source: Constructed by the author using data from ZRA Annual Reports 2010 - 2023

Figure 2 indicates the share of tax contributions from 2010 to 2023. The highest share in the tax contribution comes from income taxes, averaging 55.0 percent in the period 2010 to 2023. Customs and excise duties had the lowest contribution to the gross taxes with an average of 8.0 percent, after excise taxes with an average of 9.0 percent. Interestingly, as shown in Table 3, these same categories account for a notable share of total revenue forgone through tax expenditures in 2023.

Figure 2: Structure of tax revenues in Zambia, 2010 to 2023



Source: Constructed by the author using data from ZRA Annual Reports 2010 - 2023

[1] Table 1 reflects total revenue collected by the MoFNP for 2023, including non-tax revenues outside the ZRA remit. In contrast, Figure 1 presents total revenue collected by ZRA, comprising both tax and non-tax revenues net of refunds.

Tax expenditures key figures (2023)

First report
published in
2024

106
Reported provisions

K8.7
$ 0.4
Total revenue forgone
(in billion)

1.5%
Total TEs as % of GDP

7.5%
Total TEs as % total revenue

Source : 2023 Tax Expenditure Report (MoFNP, 2024)

Zambia released its first TE report in 2024. The report provides a detailed analysis of tax expenditures for the years 2022 and 2023, revealing that in 2023 the largest tax expenditures were related to import and export duties, which amounted to K4,130.8 million, or 0.7 percent of GDP and 4.1 percent of total revenue and reflecting efforts to encourage trade and support domestic industries. This was followed by Corporate Income Tax (CIT), totaling K3,738.6 million, which represented 0.7 percent of GDP and 3.7 percent of total revenue. Additionally, excise tax expenditures, including exemptions and temporary suspensions, stood at K784.4 million, accounting for 0.1 percent of GDP and 0.8 percent of total revenue. Crucially, the first report does not include VAT-related tax expenditures.

Key governance and institutional features

The governance of tax expenditures in Zambia involves institutions such as ZRA, MoFNP, ZDA, and other government ministries and agencies working collectively to formulate, implement, and monitor tax expenditures. Tax expenditures in Zambia aim to promote investment, economic growth, innovation, and social welfare among others. They spread across VAT, Corporate Income Tax, Personal Income Tax, and Customs duties.

New provisions

Tax expenditures in Zambia may be initiated through three primary channels: government initiative, investor applications to the ZDA, and submissions within the framework of the National Budget.

In the first approach, government departments or pertinent agencies identify areas where tax expenditures or exemptions could be advantageous, often in support of specific industries, activities, or policy objectives. Proposals for tax expenditures are developed, in conjunction with government line ministries related to the areas affected by the proposed measures. If another government agency is implicated, it is also integrated into the engagement process. For instance, in the case of a proposal regarding tax expenditure on electricity tariffs, the Ministry of Energy, the Energy Regulation Board, the Zambia Electricity Supply Company and ZRA among others participate in the discussions. The proposal is then incorporated into broader tax legislation proposals submitted to the Cabinet, specifying details such as eligibility criteria and the duration of the expenditure. The cabinet then engages in debate, potentially making amendments before deciding to approve or reject the proposal. Upon approval by the Cabinet, the Minister of Finance includes the proposed tax expenditures in the National Budget which is then presented to Parliament. Upon announcement of budget estimates in Parliament, the relevant parliamentary committees review the proposed tax expenditures, assessing their necessity, effectiveness, and potential impact on revenue. Ideally, parliamentarians debate the proposed tax expenditures as part of the budgetary discussions. This is where Members of Parliament raise concerns, propose amendments, or advocate for the inclusion or exclusion of specific tax incentives. By law, tax legislation, including tax expenditure, is formally enacted into law through the issuance of a Statutory Instrument by the Minister of Finance and National Planning. This formalizes the legal basis for the tax expenditures. With the publication of the relevant legislation, ZRA starts administering the tax expenditure.

The second path involves institutions such as the ZDA, where investors who obtain an investment certificate automatically qualify for tax incentives provided by law, without needing additional government or budget decisions. For example, companies operating in the Multi-Facility Economic Zones (MFEZs) benefit from several tax expenditures including zero taxes on profits and dividends for five years; a reduced corporate income tax rate for the next five years of operation; and zero-rated import of raw materials, supplies, machinery, equipment, and no withholding taxes on management fees (ZDA, 2024). The threshold for investing in MFEZs is US$50,000 for domestic companies and US$500,000 for foreign companies. According to the ZDA Act, tax expenditures are not limited to MFEZs only: companies operating in agriculture, manufacturing, tourism, and export-oriented companies, can also benefit from various tax expenditures and are subject to different company income tax rates (Spahia et al., 2023; ZDA, 2024). More specifically, the ZDA Act No. 11 of 2006, amended in 2014, highlights specific responsibilities for ZDA including promoting and facilitating investment; regulating and facilitating the development of multi-facility economic zones and industrial parks in Zambia; overseeing the privatisation program, promoting and facilitating the development of micro, small, and medium enterprises; enhancing Zambia's trading capacity, conducting economic and sector studies; and providing advice to the Minister of Commerce, Trade, and Industry.

Investor applications are received by the ZDA and submitted to the Ministry of Finance for approval. Investors meeting the criteria are granted a tax expenditure for five years (ZDA, 2024). Following the approval, the ZRA is notified by the MoFNP to start administering the tax expenditures.

The third channel involves the Tax Policy Review Committee (TPRC) coordinated by MoFNP. The TPRC, established by the MoFNP, reviews all tax-related submissions and includes representatives from various Ministries and Agencies, such as the ZDA; ZRA; Ministry of Commerce, Trade and Industry; Ministry of Mines and Mineral Development; Ministry of Tourism and Art; and Ministry of Lands, Natural Resources, and Environmental Protection (Bwalya et al., 2014). The MoFNP is responsible for presenting the country's national budget and outlining fiscal policy direction in Parliament for the upcoming year. The Minister of Finance announces policy directions regarding government revenue and expenditure, including proposed tax expenditures (MoFNP, 2023c).

A tax expenditure proposal undergoes several stages before being adopted for policy formulation through the National Budget. The initial stage is the submission stage, a public call by the MoFNP for budget submissions ahead of National Budget Preparations. These proposals are collected and compiled, ready for review by the TPRC (MoFNP, 2023a). The TPRC representatives deliberate on the proposals submitted by the public for the upcoming budget. Recommendations made by the TPRC undergo scrutiny by the Minister of Finance and National Planning to ensure alignment with government policy objectives. Subsequently, Cabinet approval is sought before these measures are presented and announced in Parliament (MoFNP, 2023c). The tax expenditures and their associated expected revenue losses are then presented and proposed by the Minister of Finance and National Planning as part of National Budget discussions. Members of Parliament may raise concerns, propose amendments, or request specific inclusions or exclusions of tax incentives (PKF, 2024). At this point, Parliament can either approve or disapprove certain tax expenditures. After the tax expenditures receive approval from Parliament, the ZRA executes the tax expenditures as they are enacted in the law (Bwalya et al., 2014).

Legal framework

In Zambia, tax expenditures are governed by several laws and regulations. Currently, no law mandates systematic reporting of revenue forgone through exemptions and incentives. The primary legislation is the Income Tax Act, which sets out the general rules for the calculation and payment of income tax. The Act also contains several provisions that allow for tax expenditures, such as deductions for capital expenditure, charitable donations, and research and development. Other laws that contain provisions for tax expenditures include the Value Added Tax Act, the Customs and Excise Act, and the Investment Act. The Ministry of Finance and National Planning also issues guidelines on the implementation of tax expenditures.

The ZDA Act No. 11 of 2006, as amended in 2014, empowers the ZDA to administer tax incentives to investors. For an investor to qualify for any tax incentives, they must meet the eligibility criteria outlined in the ZDA Act. These criteria include possessing an Investment License or Certificate of Registration issued under the ZDA Act, among other requirements (Bwalya et al., 2014).

Tax expenditure report

In 2024, Zambia released its first-ever tax expenditure report, marking a significant milestone in the country's efforts to enhance transparency and accountability in public finance management. While the Public Finance Management Act No. 1 of 2018 does not explicitly mandate “tax expenditure” reporting, provisions such as Section 7(1)(o) — which requires the publication of government financial statistics — may provide a legal basis for disclosing information on tax incentives, exemptions, and other measures that give rise to tax expenditures. Tax expenditure reporting not only promotes transparency but also serves as a tool for policymakers to evaluate the efficiency of tax incentives and their alignment with national development priorities.

Globally, tax expenditure reporting has become an established practice, with 116 countries classified as reporting jurisdictions by the GTED. These countries have issued at least one official and publicly available tax expenditure report between 1990 and 2023. Within the African context, nations such as Benin, Morocco, Uganda, Rwanda, South Africa, and Tanzania have been particularly proactive in systematically publishing tax expenditure data, providing valuable insights into the effectiveness and impact of their tax policies (Redonda et al., 2025a). These countries offer notable inputs for Zambia, which, despite the legal mandate, only published its inaugural tax expenditure report in December 2024.

While this initial report is a commendable step, it highlights the gaps and challenges Zambia faces in fully implementing the legal framework for tax expenditure reporting. Despite the provision under the Public Finance Management Act, the country's progress in this area has been slow, and further efforts are needed to enhance the robustness of the current framework. A more systematic and detailed approach to reporting would not only strengthen fiscal accountability but also provide clearer insights into the allocation and impact of tax expenditures across various sectors. This will ensure that tax expenditures are effectively tracked and evaluated, ultimately contributing to more informed policymaking and better resource allocation. Strengthening this framework will also help align Zambia's fiscal practices with global standards, fostering greater confidence in the country's public finance management system.

Tax expenditures transparency

The Global Tax Expenditures Transparency Index (GTETI) is the first comprehensive comparative assessment of tax expenditure reporting worldwide. Building on the data collection and classification developed for the GTED, the GTETI offers a systematic framework to rank countries based on the regularity, quality, and scope of their tax expenditure reports. This index serves as an essential tool for evaluating how effectively countries disclose and manage tax expenditures, helping to promote greater fiscal transparency and accountability.

In the 2025 GTETI edition (Redonda et al., 2025b), Zambia's first (and so far only) TE report scores strongest on Dimension 1. The report is publicly accessible, supported by a press release, searchable from the official website, and includes a summary and glossary. It also performs relatively well on Dimensions 3 and 4, with a transparent discussion on the methodology and data sources used to calculate revenue forgone, as well as provision-level revenue forgone for all measures, clear policy objectives, and limited timeframe information.

However, several areas for improvement remain. The report is not yet underpinned by a specific legal requirement mandating periodic reporting, nor a requirement for submission to Parliament. Information on beneficiaries and forward estimates is also absent, while the benchmark description lacks some key elements (e.g. a description of structural provisions included in the benchmark. Furthermore, while legal references are provided for some provisions, they cover less than half of total revenue forgone.

Crucially, the GTETI highlights the absence of a formal evaluation framework or any ex-post assessment of tax expenditures. Zambia's report does not reference planned or ongoing evaluations, limiting the ability to assess the effectiveness, efficiency, or distributional impact of the incentives reported. Establishing a dedicated framework for ex-ante and ex-post evaluation—including criteria for assessing policy objectives, fiscal cost, and economic outcomes—would be a crucial next step.

As a result, Zambia's overall GTETI score is 44 out of 100, ranking 68th among 116 countries assessed and positioning it around the middle of the global distribution.

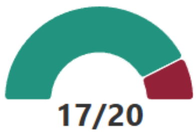
Overall, Zambia's inaugural report represents a strong initial step toward transparency, meeting many criteria related to accessibility, clarity, and coverage. Moving forward, strengthening the legal and institutional foundations, broadening the scope of information disclosed, and integrating systematic evaluation would enhance Zambia's alignment with international good practices and deepen its commitment to evidence-based fiscal management.

44/100

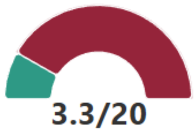
The overall GTETI score

Tax expenditures transparency

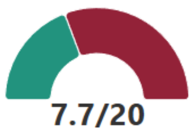
The quality and scope of TE reporting in Zambia is reflected in the Global Tax Expenditures Transparency Index **(GTETI)**, where it ranks **68 out of 116** assessed countries and jurisdictions.



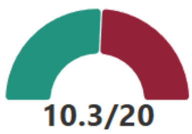
Dimension 1 – Public Availability
This dimension captures the extent to which TE reports are made available to the public. It considers the regularity of reporting, the timeliness of data, the online accessibility, and the reader-friendliness of the document.



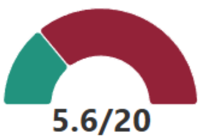
Dimension 2 – Institutional Framework
This dimension evaluates how well the institutional framework promotes transparency and accountability in TE policymaking. It assesses the legal basis for TE reporting, the requirement to submit reports to parliament, the assignment of the responsibility to report to a specific public authority, and the consideration of TEs in the country's budget cycle and medium-term strategy.



Dimension 3 – Methodology and Scope
This dimension analyses the extent to which TE reports cover all TEs available at the national level, the level of specification of the reference benchmark system against which TEs are assessed, and the method(s) used to calculate revenue forgone.



Dimension 4 – Descriptive TE Data
This dimension assesses the information available in the report to identify and explain the nature of different TEs. It evaluates the extent to which the report specifies the policy objective(s) of TEs. Also, it analyses the availability of TE data regarding the type of TE (tax credit, deduction etc.), beneficiaries, time frames, and the legal basis under which TEs are granted.



Dimension 5 – TE Assessments
This dimension analyses the extent to which revenue forgone estimates are provided in the report, including levels of (dis)aggregation and the time span of revenue forgone estimates (previous years and forecasts). Further, it assesses the availability of information on TE evaluations, considering both the existence of ex-ante and ex-post evaluation frameworks, and the scope of publicly available evaluations.

Source: Redonda et al. (2025b)

Benchmark

TE provisions are defined as deviations from the benchmark tax system. This includes deviations from the standard tax base, deviations from the standard tax rate, or changes in the tax period benefitting the taxpayer. The definition of what should be attributed to the benchmark tax system and what should be marked as a TE provision is not always unambiguous.

To identify tax expenditures, it is necessary to establish the benchmark as defined by the current tax system. Ideally, a benchmark is defined as a tax policy that does not contain any preferential provisions. A tax expenditure is defined as a deviation from the benchmark (Talery, 2022). In practice, the benchmark does not only consist of standard rates, but also covers three other elements: (i) the tax base, which in Zambia would mean that all income, profits or consumption should be taxed uniformly without exemptions for specific groups or sectors; (ii) the timing of taxation, with income taxable when earned and expenses deductible when incurred, without deferrals or accelerated depreciations; and (iii) neutral treatment, implying that different industries, financing methods or taxpayer categories are treated equally. Any deviation from these principles is considered a tax expenditure (OECD, 2010).

A key part of the tax benchmark in Zambia is given by the standard tax rates for VAT, CIT, PIT, and customs duties. However, for VAT the benchmark is also defined by applying the 16 percent standard rate broadly to domestic consumption, with only exports zero rated as part of the benchmark design. For CIT, the benchmark is a flat 30 percent on all corporate profits with normal depreciation rules, while PIT the benchmark is progressive taxation of all income above the threshold, without occupational exemptions. For customs, the benchmark is as described in the Tariff Guide schedule under the WTO rules (WTO, 2021).

Table 2 provides the benchmark rates for the aforementioned taxes.[2]

Table 2: Standard tax rates

Tax types	Tax rates
CIT standard rate	30 percent
PAYE/PIT Band 1	K54,000–K57,600 at 25 percent
PAYE/PIT Band 2	K57,600–K82,800 at 30 percent
PAYE/PIT Band 3	Over K82,800 at 37.5 percent
VAT standard rate	16 percent
Customs duties	Mostly range from 0 to 40 percent

Source: ZRA, 2022

[2] More information on the design of different taxes in Zambia can be sourced from the Income Tax Act, the Customs and Excise Act, and the Value Added Tax Act.

The subsections below describe provisions that fall outside of the benchmark for the major taxes in Zambia and, thus, constitute tax expenditure. A longer list of provisions (excluding VAT) and their related cost is included in the annex.

Personal income tax (PIT)

In the domain of personal income tax, the following provisions are tax expenditures;

1. *Tax credits for persons with disabilities:* These have been elevated from K500 to K600 per month. This adjustment seeks to bolster the disposable incomes of individuals with disabilities, thereby fostering an improved quality of life for this population segment (ZRA, 2022).
2. *Exemption for Chiefs:* The income of the Chiefs received from the Government is exempt from tax

Corporate income tax (CIT)

Zambia's corporate income tax expenditures are used as key instruments to shape the nation's economic landscape. The following are some of the existing tax expenditures:

A reduction in CIT Rates:

The government extends targeted tax benefits through reduced rates that apply to specific sources of income within various sectors. Here's a breakdown for clarity:

1. Manufacturing using copper cathodes: reduced to 15 percent.
2. Agro-processing: set at 10 percent.
3. Non-traditional exports (agro-processing and farming): maintained at 10 percent.
4. Non-traditional exports (others): set at 15 percent.
5. Chemical manufacture of fertilizer: reduced to 15 percent.
6. Organic manufacture of fertilizer: also reduced to 15 percent.
7. Rural enterprises: tax reduced by 1/7 for 5 years.
8. Ceramic manufacturing (2022-2023): no tax levied.
9. Artisanal and small-scale mining: taxed at 4 percent on gross turnover less mineral royalty paid.
10. Income from organic and chemical manufacturing of fertilizers is taxed at a reduced rate of 15 percent.

Mining:

1. Dividends paid by mining companies holding a mining licence and engaged in mining operations are taxed at 0 percent.
2. Guaranteed input tax claim for seven years on pre-production expenditure for exploration companies in the mining sector. This allows exploration companies to recover VAT on pre-production expenses during the exploration phase, before sales commence.
3. 25 percent deduction on capital expenditure for mine development. This permits a yearly 25 percent deduction on qualifying costs such as buildings, railway lines, equipment, and shaft sinking, supporting faster cost recovery and improved cash flow.

Tourism:

In the tourism sector, income from hotels and lodges related to accommodation and food services is taxed at a reduced rate of 15 percent.

Other special provisions:

Certain entities enjoy special provisions, including:

1. Collective investment schemes: Exempt from income tax if income is distributed to participants.
2. Public benefit organisations: Fully exempt from income Tax.

Tax expenditures:

Under the Income Tax Act, various benefits are provided. These include

1. Exemptions for dividends declared from farming income for the initial five years of farming commencement.

Capital allowances:

The tax framework in Zambia incorporates a comprehensive set of capital allowances, enabling businesses to deduct portions of their capital costs from taxable income. Notable allowances cover industrial buildings, low-cost housing, commercial and industrial building improvements, machinery, and farming-related expenditures (ZRA, 2023a). In particular:

1. Investment allowance at 10% of the cost of an extension to a hotel (being an industrial building)
2. 5 percent wear and tear allowance to an extension to a hotel (being an industrial building)
3. 10 percent initial allowance on an extension to a hotel (being an industrial building) in the year the building is first brought into use.
4. Persons who incur capital expenditure on an industrial building are entitled to claim a deduction called initial allowance at 10 percent of the cost incurred in the charge year in which the industrial building is first brought into use.
5. Any person who incurs capital expenditure on an industrial building is entitled to an investment allowance of 10 percent of such expenditure in the first year used for manufacturing purposes.

Value added tax (VAT)

In the sphere of VAT, Zambia has implemented tax expenditures to reduce taxes on businesses and foreign consumers. These encompass exemptions and reduced rates and are presented below by sectors. It is important to note that these tax expenditures are available to all taxable suppliers provided they are trading in the products that the tax expenditure addresses and are registered for VAT.

Agriculture:

1. Zero-rating of agricultural products: Agricultural products and supplies benefit from zero-rating.
2. Under the VAT benchmark, all domestic supplies of goods and services are subject to a standard rate 16 percent, with zero-rating agricultural equipment and accessories intended to support the sector. This

measure was expanded in 2021 through the VAT Zero-rating Amendment Order, 2021 (SI No. 104 of 2021). The measure extended the list of agricultural equipment and accessories eligible for zero-rating. The list of equipment and accessories benefitting from this expansion has been extended to support the sector.

3. Zero-rating of finance lease principal amount: Finance leases for purchasing agricultural equipment listed in the Value Added Tax Zero-Rating Order have the principal amount zero-rated.

Mining:

Zero-rating of capital equipment: Capital equipment and machinery listed in the Second Schedule of the VAT Zero-Rating Order are zero-rated for large-scale mining license holders.

Tourism:

1. VAT refund for non-resident tourists: Non-resident tourists receive a VAT refund on selected goods. This refund mechanism allows eligible tourists to reclaim the VAT paid on qualifying purchases when leaving the country.
2. Zero rating of VAT on other tourist services provided to foreign tourists other than those included in tour packages.
3. No import VAT on all goods temporarily imported into the Country by foreign tourists

Manufacturing:

1. Refund of VAT on export of Zambian products by non-resident businesses under the Commercial Exporters Scheme. This provision applies to non-resident exporters who cannot register for VAT. Unlike VAT-registered businesses whose exports are zero-rated, non-residents pay VAT upfront on local purchases but can later claim a refund to maintain VAT neutrality on exports.
2. Guaranteed input tax claim for two years before commencement of production for intending trader.

General VAT tax expenditures: facilitating business operations

1. VAT deferment: VAT-registered businesses enjoy import VAT benefits for eligible capital goods.
2. Zero-rating on export: VAT is zero-rated on the export of taxable products.
3. Transfer of business benefit: VAT benefit is granted on the transfer of business.
4. Targeted cash accounting for VAT: Members of the Association of Building and Civil Engineering Contractors, intending traders, and suppliers in the electricity sector benefit from cash accounting for VAT.
5. Exemption of interest component: The interest component of finance leases is exempt from VAT.
6. Zero-rating for public benefit organisations: Qualifying supplies to public benefit organisations are zero-rated to provide tax benefits.
7. Zero-rating for special-purpose vehicles: Goods and services supplied to or imported by special-purpose vehicles during the construction period are zero-rated.

These VAT-related expenditures aim to facilitate business operations, encourage economic growth, and provide benefits in specific sectors, promoting sustainable development in Zambia (ZRA, 2024).

Revenue forgone

The revenue forgone method estimates the loss in revenue incurred by the government because of a tax expenditure provision. This involves comparing the amount of revenues actually collected with the amount of revenues that would be collected in the absence of the provision (under the benchmark tax system), and without considering taxpayers' behavioural responses.

Prior to the first official tax expenditure report in 2024, there was no consolidated reporting on revenue forgone. In some instances, prior to the report, however, the Minister of Finance and National Planning had already highlighted the fiscal impact of specific tax expenditures during the National Budget Address. For example, in the 2021 Budget Speech, the Minister noted that zero-rating equipment used for body sanitization in response to COVID-19 was expected to result in a revenue loss of K5.1 million and proposed mitigating measures to address the shortfall (MoFNP, 2021).

As per the 2024 report, total tax expenditures in 2023 amounted to K8.7 billion, representing 1.5 percent of GDP and 7.5 percent of total revenue. However, these figures should be interpreted as lower-bound estimates, as the report did not include VAT-related tax expenditures and appear to report lower values for customs-related tax expenditures compared with those presented in the ZRA Annual Reports.

Among the tax expenditures included in the report, those related to import and export duties contributed the largest share, with K4.1 billion in forgone revenue, nearly half the total, primarily driven by import duty exemptions. Corporate income tax expenditures followed closely at K3.7 billion (0.7% of GDP), reflecting the impact of various reduced tax rates and sector-specific incentives. Excise tax expenditures were estimated at K0.8 billion, with the majority stemming from temporary suspensions aimed at supporting local industries. In contrast, personal income tax expenditures remained minimal at just K4.9 million. Table 3 provides an overview on the impact of TEs from reduced rates, import duties, and excise tax suspensions on the fiscal space.

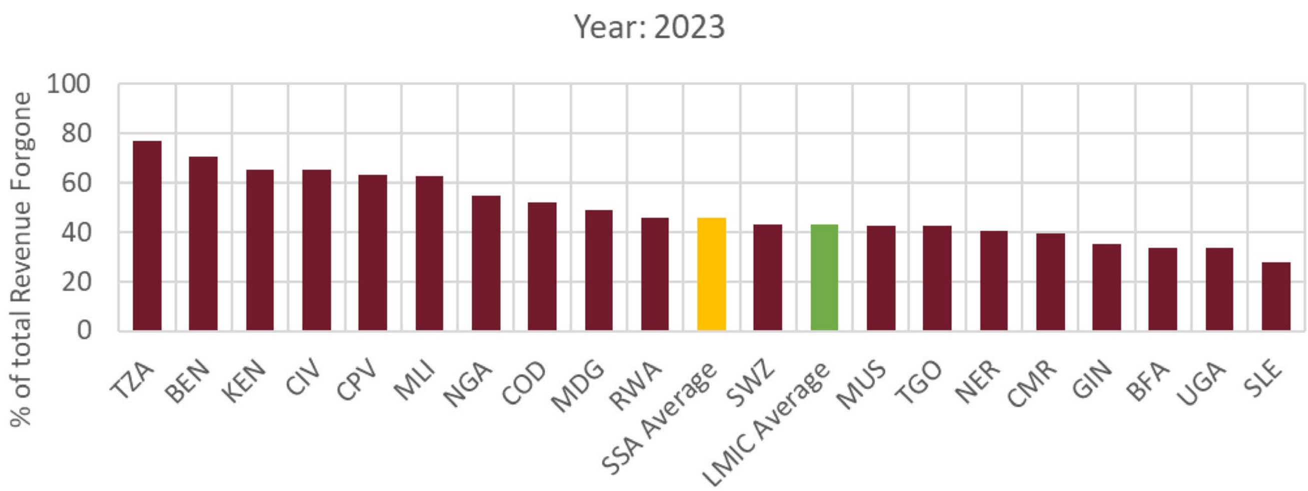
Table 3: Tax expenditures by tax type in 2023[3]

Tax types	Cost (K' million)	% of GDP	% of Total revenue
Import and export duties	4,130.8	0.7%	3.6%
Import duties	3,308.1	0.6%	2.9%
Export duties	822.7	0.1%	0.7%
Corporate Income Tax	3,738.6	0.7%	3.2%
Personal Income Tax	4.9	0.0%	0.0%
Excise taxes	784.4	0.1%	0.7%
Temporary suspension of excise	661.5	0.1%	0.6%
Exemptions from excise	122.9	0.0%	0.1%
Total	**8,658.7**	**1.5%**	7.5%

Source: MoFNP, 2024; ZRA, 2023c

The top ten reported tax expenditures accounted for an estimated K7.1 billion in foregone revenue in 2023, representing 82.0 percent of the total. The most significant was the reduced CIT rate for ZDA-registered enterprises operating in priority sectors or special zones, which alone accounted for K1.4 billion or 16.5 percent of the total. This was followed by the full CIT exemption for ceramic manufacturers (K1 billion), and the zero-rating of goods supplied to mining rights holders (K0.9 billion). Other high-cost provisions included reduced CIT on farming profits, the suspension of excise duty on tobacco cut rags, and various duty suspensions and exemptions aimed at promoting investment, manufacturing, and development programmes. Together, these provisions reveal a concentration of foregone revenue around industrial policy and sector-specific incentives (see Table 4 in the appendix).

Figure 3: Average share of VAT in total revenue forgone in Sub-Saharan-Africa (SSA)



Source: Redonda et al. (2025a)

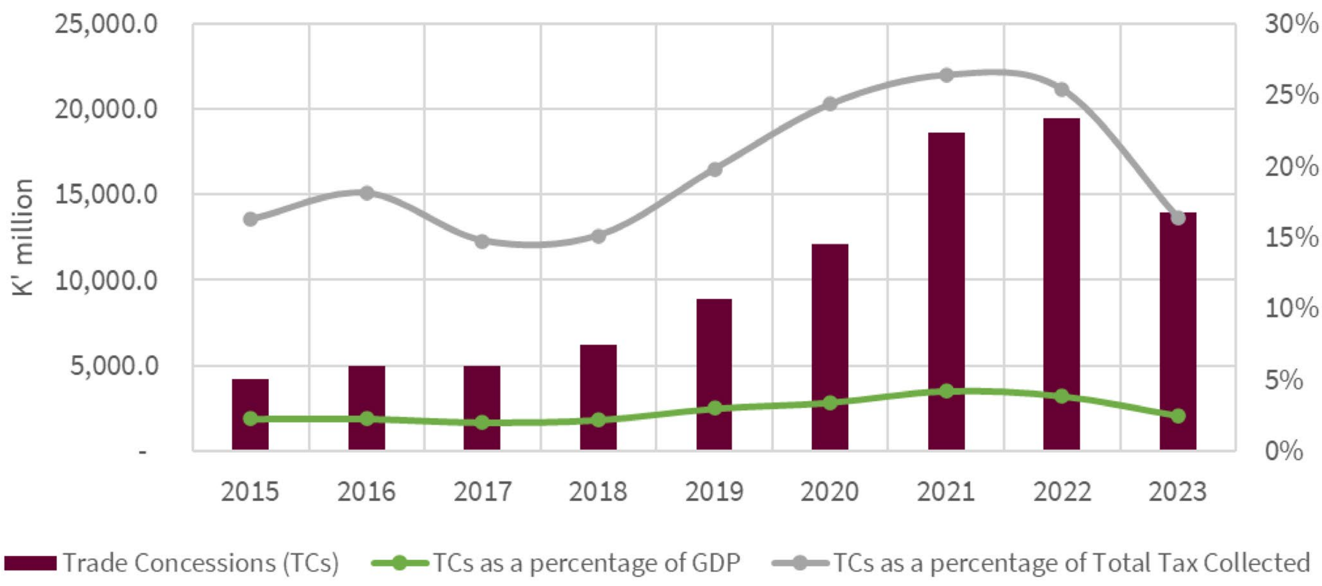
[3] VAT, allowances and depreciation for CIT, and credits and deductions for PIT are not included in costings.

However, it is important to point out that the omission of VAT revenue forgone in the official report significantly understates the scale of tax expenditures in Zambia. International evidence shows that VAT-related tax expenditures are typically the largest component of total forgone revenue in low and lower-middle income countries. As illustrated in Figure 3, VAT accounts on average for 42.8 percent of total tax expenditures in lower-middle income countries and 45.4 percent in SSA. While the magnitude of VAT revenue forgone in Zambia cannot be known without government estimates, international trends suggest that its inclusion could raise the total fiscal cost by roughly a factor of two.

Figure 4 presents the revenue forgone on trade concessions[4] as percentage of GDP and tax revenue from 2015 to 2023, as reported in the ZRA annual reports. Trade concessions refer to preferential tax treatments granted on imports or exports, usually through exemptions or reduced rates of customs duties, excise duties or import VAT (Goyal and Chai, 2008). Between 2015 and 2018, the value of revenue forgone through trade concessions in Zambia remained relatively stable, averaging approximately K4 billion annually. During this period, trade concessions represented a modest share of both gross domestic product (GDP) and total tax revenue.

However, beginning in 2019, the trend shifted markedly, with the absolute value of forgone revenue rising steadily and nearly tripling by 2021. By 2022, the revenue forgone from trade concessions peaked at over K15 billion, representing a significant fiscal cost. This escalation was mirrored by a notable increase in the share of trade concessions as a percentage of total tax collected, reaching a peak of approximately 27 percent in 2021—its highest point within the observed period. This pronounced growth in tax expenditures from trade concessions between 2019 and 2022 may reflect policy decisions aimed at stimulating investment or trade during a period of economic uncertainty, including the effects of the COVID-19 pandemic (ZRA Annual Reports, 2015 – 2023).

Figure 4: Trade concessions in millions of Kwacha and their percentage of GDP and tax revenue



Source: Constructed by the author using data from ZRA annual reports.

[4] The revenue forgone reported here is higher than in the TE report because the ZRA annual report includes all revenue forgone from trade concessions, whereas the TE report includes certain provisions within the benchmark and therefore does not record the associated cost.

Evaluation

Before a tax expenditure is granted, an ex-ante assessment is imperative to ensure that the provision is aligned with the government's policy objectives. In Zambia, there is currently no framework for such ex-ante assessments. This said, some tax expenditures do have some conditions attached to them like those in the MFEZs (MoFNP, 2023). Monitoring and evaluation of existing tax expenditures is supposed to be done by the ZDA and MoFNP. However, this has only been done occasionally.

In 2021, the ZDA and the MoFNP undertook a joint monitoring and evaluation exercise focused on companies benefiting from tax expenditures, particularly those operating within MFEZs. The primary objective was to assess whether the tax incentives granted were achieving their intended policy outcomes. The findings revealed that many companies faced significant operational challenges, including inadequate infrastructure, unreliable electricity supply, and limited road access. These constraints hindered the effectiveness of the tax incentives in stimulating investment and economic activity within the MFEZs. Additionally, delays in processing VAT refunds were highlighted as a major concern, affecting cash flows and operational efficiency. The report concluded that, in the absence of supportive infrastructure and services, tax expenditures alone were insufficient to drive the anticipated economic growth and job creation. Notably, in 2021, investments in MFEZs accounted for only 11 percent of the total private sector investment achieving just 23 percent of the government's targeted investment growth for that year (Spahia et al., 2023).

Beyond this specific evaluation, there is a general consensus among policy analysts and institutions like the Zambia Institute for Policy Analysis and Research (ZIPAR) that Zambia's monitoring and evaluation systems for tax expenditures are weak and fragmented. This deficiency hampers the government's ability to effectively track financial flows and assess the impact of tax incentives on development programs. The lack of robust monitoring and evaluation frameworks contributes to resource misallocation and undermines the potential benefits of tax expenditures in achieving national development goals (ZIPAR, 2024).

Furthermore, the absence of a comprehensive ex-ante assessment framework means that tax expenditures are often granted without thorough analysis of their alignment with policy objectives. While some incentives, such as those under the ZDA Act, include conditions like minimum investment thresholds and job creation targets, the overall monitoring and enforcement of these conditions remain inconsistent. This situation underscores the need for institutional reforms to enhance the evaluation and accountability mechanisms governing tax expenditures in Zambia.

Political economy and reform

The political economy surrounding tax expenditures in Zambia is shaped by a complex interplay of domestic needs, external pressures, and institutional weaknesses. These dynamics create a variety of challenges and debates around the role of tax expenditures in balancing fiscal needs with economic policy objectives. The political economy context is characterised by an interplay of domestic pressures, such as managing fuel price volatility and expanding rural energy access and external influences, including fluctuating global oil prices, exchange rate depreciation and international development commitments.

In 2022, the Minister of Energy addressed the challenges of importing petroleum products, particularly the impact of rising international oil prices and Kwacha depreciation. These factors significantly increased fuel import cost, necessitating adjustments in domestic fuel prices (MoE, 2022). To cushion citizens and businesses, the government introduced tax expenditure measures such as zero-rating of VAT on petrol and diesel, the removal of excise duty on diesel, and reduction of the excise duty on petrol. While the measures were intended to stabilise the economy, they were revoked in 2023. The energy sector further demonstrates the political economy of tax expenditures The limited access to electricity in rural regions impedes development and forces reliance on traditional energy sources such as firewood and charcoal, with negative health, environmental, and deforestation impacts. To address this, the government introduced tax exemptions for import duties and VAT for off-grid solar products such as solar home systems and improved cookstoves. These tax expenditures were designed not only to expand access to sustainable energy but also to align with Sustainable Development Goal No. 7, aiming for universal access to clean and affordable energy by 2030 (Kuungana Advisory Limited, 2018).

However, inconsistent application of the exemptions has undermined investor confidence. For example, some solar shipments were excluded and applications varied across customs entries, creating uncertainty for off-grid companies. This inconsistency reflects institutional weaknesses in administering tax expenditures, limiting their developmental impact on tax revenues and job creation, contributing to the broader economic development of the country (Kuungana Advisory Limited, 2018).

Furthermore, political economy dynamics are also evident in parliamentary oversight. For example, a submission to Parliament seeking a tax credit on VAT for production inputs was rejected due to the lack of clarity on eligible inputs and the time frame or period within which taxpayers could claim these credits (PBO, 2022). Similarly, a proposed tax expenditure to reduce the property transfer rate on mining rights from 10 percent to 5 percent was also rejected due to discrepancies between the proposal and the Minister of Finance's national budget speech. Parliament rejected both the proposed VAT input-tax credit and the reduction of the property transfer tax on mining rights because the submissions were unclear and inconsistent with the budget speech, underscoring the need for clearer and more coordinated tax-expenditure proposals between the executive and Parliament (PBO, 2022).

The ZDA Act of 2006 provided a framework for offering various tax incentives to investors, including tax holidays, reduced tax rates, and import duty exemptions. These incentives aim to attract investment and promote job creation, especially in priority sectors like manufacturing. However, concerns about the consistency and clarity of these incentives have led to potential misuse and revenue leakage. The revised ZDA Act of 2018 maintained similar incentives but raised the investment threshold for eligibility, focusing on manufacturing and targeted sectors. Despite these adjustments, questions remain about the overall effectiveness of these incentives in achieving the intended developmental outcomes and generating sustainable revenue (Fumpa-Makano, 2019).

While tax incentives and exemptions can promote investment and stimulate economic growth, they must be carefully managed to avoid inefficiencies, resource misallocation, and revenue leakage. The lack of clear guidelines, inconsistencies in their application, and insufficient monitoring and evaluation frameworks hinder the effectiveness of these policies. In this context, Zambia's efforts to refine its tax expenditure framework could benefit from increased transparency, clearer policy definitions, and stronger institutional capacity to ensure that tax expenditures contribute meaningfully to the country's development goals.

“ *While tax incentives and exemptions can promote investment and stimulate economic growth, they must be carefully managed to avoid inefficiencies, resource misallocation, and revenue leakage.*

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Annex

Table 4: Tax Expenditures in Zambia (Excluding VAT), 2023

Description	Costing (K' million)	% GDP
Attract investment broadly	2,849	0.5%
1) Income tax on profits declared by ZDA registered enterprise operating in a Priority Sector, MFEZ, or Industrial Park on exports as follows: 1. First ten (10) years from commencement - Zero (0) % on profits 2. Years 11 to 13 - Fifty (50) % of the applicable rate 3. Years 14 to 15 - Seventy-five (75) % of the applicable rate	1,425	0.2%
2) Customs duty exemption for 5 years in respect of machinery and equipment for companies in a special economic zone and ZDA-approved	425	0.1%
3) Duty exemption for those involved in development programs	415	0.1%
4) Imports by Public-Private Partnership	8	0.0%
5) Suspension of customs duty on capital equipment	537	0.1%
6) Machinery and equipment imported for use under a public-private partnership project.	-	0.0%
7) Goods for development programmes	40	0.0%
Encourage growth of a sector	4,558	0.8%
1) Corporate income tax for the processing of copper cathodes is at a reduced rate of	2	0.0%
2) Gemstones processing through lapidary and jewelry at 25%	-	0.0%
3) Manufacturing of ceramic products for the years 2022 and 2023 at 0%	954	0.2%
4) Profit from the production of organic or chemical fertilizer at 15%	209	0.0%
5) Profits from agro-processing at 10%	167	0.0%
6) Profits from the export of non-traditional exports are taxed at 15% for an unlimited duration (means anything produced or manufactured in the republic, excluding minerals, electricity, services, or cotton lint exported without an export permit.	79	0.0%
7) Profits from farming are at 10%	882	0.2%
8) Reduced CIT for the production of corn starch:	21	0.0%
9) for the charge years 2023 to 2033, CIT is levied at 0% on profits derived from	30	0.0%
10) Suspension of duty on aquaculture	2	0.0%
11) Suspension of duty on import of plastics for greenhouses	0	0.0%
12) Suspension of Excise duty on Ethanol	3	0.0%
13) Suspension of Excise duty on Tobacco Cut Rags (Note: this is an import excise costing)	659	0.1%
14) Goods for Approved Companies under Regulation 91, 91A & 92 (related to railways	8	0.0%
15) Goods for a mining rights holder	931	0.2%

Description	Costing (K' million)	% GDP
16) Suspension of Duty on inputs intended for use in the manufacturing of other goods in	589	0.1%
17) Temporary suspension of Customs Duty on importation of refrigerated trucks	2	0.0%
18) Suspension of duty on import of music and film equipment	-	0.0%
19) Consumable technical supplies for public transport aircraft	1	0.0%
20) Refund or remission of duty on aircraft stores and equipment	20	0.0%
21) Suspend the Excise Duty rate by 50 percent on locally produced clear beer, for a period of 3 years for small and medium manufacturers that produce less than 500,000 litres per	-	0.0%
22) Suspend Excise Duty on clear beer made from cassava to 5 percent from 10 percent and Excise Duty on clear beer made from malt to 20 percent from 40 percent.	-	0.0%
Increase access and demand for goods/services	134	0.0%
1) Suspension of Duty on Fire Extinguishers and Detectors	0	0.0%
2) Suspension of duty on import of prefabricated housing units by limited importers	44	0.0%
3) Suspension of Duty on Imports of Wheat	90	0.0%
4) Suspension of duty on refined sugar	-	0.0%
5) Various fuel duty suspensions	-	0.0%
6) Suspension of excise on processed fuel	-	0.0%
Multiple/None	0	0.0%
1) Goods for the President of the Republic of Zambia	0	0.0%
Support the environment	91	0.0%
1) Duty suspension on Garbage Dumpers	0	0.0%
2) Energy-saving appliances, machinery, and equipment	91	0.0%
3) Waste management machinery suspension of import duty	0	0.0%
Support the welfare of specific groups	204	0.0%
1) The income of any Chief received from the Government is exempt from tax	5	0.0%
2) Vehicles imported by those with disabilities	2	0.0%
3) Import by Public Benefit Organisations	191	0.0%
4) Suspension of Customs duties on particular items related to COVID	7	0.0%
Promote the export of goods	823	0.1%
1) Suspension of Export Duty on Copper & Manganese Ores and Concentrates	286	0.1%
2) Suspension of Export Duty on Precious Metals	165	0.0%
3) Suspension of Export Duty on Precious Stones	334	0.1%
4) Suspension of Export Duty on Zinc Ores and Concentrates	38	0.0%
Grand Total	**8,659**	**1.5%**

Source: 2023 Tax Expenditures Report (Zambia)