

Payroll Compliance

A short guide for payroll professionals navigating the latest employees' tax legislation.

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1. General Information

1.1 The official currency

Kwacha (ZMW).

1.2 Tax year

January to December.

1.3 Revenue service

Zambia Revenue Authority

Website: www.zra.org.zm

2. Administration and Compliance

2.1 Payroll records

Employers must keep all records required to be maintained under Regulations for 6 years after the charge year to which they relate.

2.2 Expatriates in Zambia

There is no special tax relief or concession for expatriate employees.

Income of an expat is subject to tax at the individual rates applicable in Zambia

There are no special additional taxes.

3. Pay As You Earn (PAYE)

3.1 Monthly Tax Tables for 2023 tax year

Income band per month (K)	Tax Rate
0, 00 – 4 800	0%
4 800, 01 – 6 800	20%
6 800, 01 – 8 900	30%
Above 8 900	37,5%

3.2 Part-time employees.

The term “part – time” has a special meaning for PAYE purposes that is different from the normal meaning of the phrase.

Where an employee has only one employment, that employment is not regarded as part – time, whatever the number of hours of employment. However, where an employee obtains other employment, the second and any subsequent employments are, for PAYE purposes, regarded as part – time.

This means, for instance, if an employee is employed as a barman, 5 days a week from 20:00hrs to 24:00hrs, this employment is not regarded as part – time for PAYE purposes. If, whilst remaining employed as a barman in the evening, the employee also starts working as a driver, 6 days a week, from 07:00hrs to 17:00hrs, this second employment is, for PAYE purposes, regarded as part – time.

The significance of part – time employment is that tax is to be deducted at the maximum rate, that is, the highest marginal rate applicable to individuals for the charge year of payment (currently **37.5%**). No deduction is to be given for tax credit and no regard is taken of cumulative tax.

3.3 Chargeable Emoluments

The term “emoluments” means total earnings of an employee from employment. These include wages, salaries, overtime, leave pay, commissions, fees, bonuses, gratuities and any other payments from employment or office. (Section 2 of IT Act).

3.4 Cash Benefits paid in the form of Allowances

All cash benefits paid in the form of allowances are taxable on the employee under PAYE.

Examples of such cash benefits are:

- Education allowance;
- Housing allowance;
- Transport allowance
- Domestic Utility allowances e.g. for electricity, telephone, and water;
- Commuted car allowance; and
- Settling in allowance.
- Allowances paid in recognition of an employee's professional qualifications etc.

3.5 Shares

From a ZRA Approved share Option scheme: The benefit which arises to an employee on allotment or acquisition of shares under an approved share option scheme will be exempt from tax.

From an unapproved share option scheme: The top rate of personal tax in Zambia is 35%

The employer is advised to account for 35% of income tax on the Zambian sourced amounts

3.6 Settling in allowances

Settling in allowances, or whatever name called, paid to new employees and employees on transfer constitute emoluments and should be subjected to tax under the PAYE scheme.

4. Fringe benefits

The tax treatment of employment benefit will depend on whether it is convertible into money or money's worth. If it is capable of being converted into money or money's worth it is subject to tax under PAYE whereas, if it is not convertible (not translated into actual money) then it will be non-deductible on the employer.

“Money or money's worth” is any expenditure that is of direct monetary value to a person and may relate to money, security, tangible property, intangible property, or services that can be reduced to

money's value. Therefore, the monetary value may be applied whether or not it is convertible into

money or money's worth.

Factors to consider for benefits that cannot be converted into money or money's worth:

- Non-money fringe benefits are those benefits or advantages that cannot be converted into money or money's worth where any three or more of the following factors apply:
- Not capable of being converted into actual money by the employee
- Not capable of being converted into a pecuniary benefit by the employee
- Not capable of disposal or transfer by the employee
- Not owned by the employee
- Received with restrictive terms and conditions
- One can use it or forfeit it

4.1 Payment of Employees' Bills (benefits convertible into money's worth)

Where an employer discharges the liability of an employee by paying his or her private bills or expenses such as rent, electricity, telephones, water bills, school fees, or school association fees, club membership fees and similar payments, the employer is required to add such payments to the employee's emoluments and deduct tax under PAYE.

5. Exempt Income

The following emoluments are exempt or otherwise not chargeable to income tax and, consequently need not be included in the chargeable emoluments from which PAYE tax is to be deducted:

5.1 Ex – Gratia Payments

A voluntary, non-contractual, non-obligatory payment made by an employer to the spouse, child or dependant of a deceased employee is exempt.

5.2 Medical Expenses

Medical Expenses paid or incurred by an employer on behalf of an employee or refunds of actual medical expenses incurred by an employee are exempt.

Medical allowances, however, are taxable and should be included in chargeable emoluments.

5.3 Lump Sum payments made on medical discharge

Where the employer, on medical advice, determines that an employee is permanently incapable of discharging his/her duties through infirmity of mind or body, one may terminate the services of an employee.

With effect from 1st April 2001, a lump sum payment made to an employee on termination of employment on medical grounds is exempt from tax.

5.4 Funeral Expenses

Funeral expenses paid or incurred by an employer on behalf of an employee are exempt.

5.5 Sitting Allowances for Councillors

Payments by Local Authorities to Councillors as Sitting Allowances are exempt.

5.6 Labour Day Awards

Labour Day awards either paid to employees in cash or in kind are regarded by ZRA as non-taxable.

5.7 Shares from a ZRA Approved share Option scheme

The benefit that arises to an employee on allotment or acquisition of shares under an approved share option scheme will be exempt from tax.

5.8 Some fringe benefits

Benefits that cannot be converted into cash provided by the employer.

Example

Where the employer incurs expenditure on the provision of refreshments or canteen meals or any other meals (except on business trips) to employees, the benefit arises in the hands of the employees. As the benefit cannot be converted into money's worth, it is not taxable on the employee.

5.9 Pension benefits

Pension benefits are exempt from tax.

“Pension benefit” includes a pension, compensation, gratuity or similar allowance in respect of a person's service.”

This definition extends the tax exemption to compensation, gratuity, severance pay, repatriation and other similar allowances received in respect of a person's services at cessation of employment or expiry of contract.

Payments on cessation of employment

The following payments can be made on cessation of employment by way of dismissal, resignation, end of contract term, redundancy/retranchment, retirement or death.

- Pension
- Refund of employee's pension contributions
- Withdrawal of employer's pension contributions
- Gratuity
- Redundancy pay
- Severance pay or compensation for loss of office
- Salary in lieu of notice
- Repatriation allowance
- Monthly salary
- Commutation of accrued leave days
- Accrued service bonuses

Following the amendment to the Constitution, with effect from 5th January 2016, the tax treatment for the payments above is as follows:

- Pension;
- Refund of employee's pension contributions;
- Withdrawal of employer's pension contributions
- Gratuity;
- Redundancy pay;
- Severance pay or compensation for loss of office;
- Salary in lieu of notice; and
- Repatriation allowance

are exempt from tax as they fall within the definition of pension benefit.

On the other hand, the following payments are taxable under the applicable PAYE bands:

- Monthly salary;
- Commutation of accrued leave days; and
- Accrued service bonuses

The above payments are taxable because they are emoluments that would have been earned during the course of one's employment.

6. Tax deductions

6.1 Approved Pension Funds

Employee contributions are no longer tax deductible.

6.2 Subscriptions

A deduction is allowed in ascertaining the emoluments of any employment for any subscription paid by a person in respect of his membership of a trade, technical or professional association which is related to his business, employment or office. There is no limit for this deduction.

7. Disability Tax Credit

The annual tax credit granted to a qualifying disabled employee is K7 200, K600 per month.

The disability tax credit does not reduce the taxable income but rather reduces the total tax liability of the employee.

A tax credit may not result in an earning.

As per the Income Tax Act of Zambia, the meaning of a person with disability is the one used in the Disability Act 1996.

8. National Pension Scheme Authority

(NAPSA)

8.1 Contribution

An Employer is required to remit 10 % of an employee's gross earnings subject to the prevailing ceiling amount. 5% is paid by employees and 5% by the employer.

As from 1 January 2022, the new NAPSA earnings ceiling is K26 840 per month.

The total maximum contribution by both the employee and employer for 2022 is K2 684.

8.2 Which employees are covered?

All workers between ages of 16 and 60 whether engaged on:

- Part Time
- Probation or Casual basis
- Contract
- Permanent
- Non Zambians employed by local institutions
- Public service workers who joined the civil after 1st February 2000.

8.3 Which employees are exempted?

- Non- Zambians employed by International Organizations with diplomatic status
- Workers above age 60 and minors below age 16
- Workers earning below K15 per month
- Members of the armed forces

8.4 When should an employer register or update records?

- At employment
- Change of marital status
- Birth of a Child

8.5 What constitutes Gross Earning for NAPSA Purposes?

Gross earnings refers to any benefit whatsoever given by an employer in exchange for the employee's service whether contractually explicit or implied, orally or in writing. It does not matter what earnings are called in the case of a particular member—fees, commissions, bonuses, salary.

Earnings may be paid in kind, cash, credit or securities, as favourable terms for loans, purchase options, or accommodations, including any allowance paid by the employer to the employee, either directly or by implication, with regard to the cost of living and any payment of wages by way of severance benefit upon termination of employment paid to an employee under an actual or implied contract of service or apprenticeship. Earnings may be paid, as the case may be or agreed to be paid, at fixed or determinable intervals of time or calculated in relation to set tasks or with regard to the number of tasks completed by the employee; or in relation to the volume of work completed by the employee.

Contributions are due by the 10th of the following month. Payment made after the due date attract penalty.

8.6 New retirement age (60 years)

The National Pension Scheme (Amendment) Act No. 7 of 2015 provides for the definition of pensionable age as 60 years; previously it was 55 years. This means that members who joined the NAPSA scheme after 14th August 2015 will attain normal retirement age on their 60th birthday.

Another change is that early retirement is now 55 years and late retirement has been changed to 65 years. Note that there is a qualifying criteria for early and late retirement.

After 14 August 2015, employees should stop contributing towards NAPSA in the month which they turn 60 years old unless they choose to retire early at age 55 or late at 65 years old.

Employees who have been paid benefits will no longer be eligible to re-join the Pension Scheme and make contributions.

www.napsa.co.zm

9. Personal Levy

9.1 Requirement

Every local authority may collect an annual personal levy from all adult persons living within its area.

Payment is coordinated through the employer.

9.2 Contribution Ratio

Imposed at 1% of gross annual salary, but may not exceed K15 per annum

Deducted from an employee's income twice in a year.

Having looked at the maximum deduction of K15, at 100% the basic salary is K1500. Looking at the current economy, the K1500 is below the monthly minimum wage and very few people, if any, would be paid below K1500. In other words, it is unlikely that any employee will contribute an amount below the K15 limit. In practice, the K15 is applied as a fixed rate.

Personal Levy Act: Part 1 Section 2 (1) d-e

(d) wages and all other emoluments paid by an employer to or on behalf of an employee in respect of the services of such employee, including the value of rations or money paid in lieu of rations, but shall not include housing allowance provided the value of such housing allowance is not excessive in relation to the sum actually incurred by such employee in respect of his accommodation, payments for travelling, accommodation or other expenses necessarily incurred by the employee for the purposes of the employer's business;

(e) any bonus received within Zambia by any person;

Gross salary includes Fringe benefits and Company contributions (excluding all the statutory company contributions). It excludes housing/accommodation and travel/transport allowances which are excessive in relation to the actual amount incurred for business purposes.

9.3 Payment date

It is payable in two equal instalments in March and June.

<http://www.zambialii.org/zm/legislation/consolidated-act/329>

10. Workers Compensation Fund (WCF)

The Workers Compensation is compensation that an employer is obliged by law to pay to workers or their families, when such workers are injured or killed as a result of an accident arising out of and in the course of their employment; or when they suffer from certain scheduled diseases caused by the workers' particular trade or occupation.

Every employer of workers is required to register and to pay annual assessments to the Workers' Compensation Fund Control Board. Employers of private domestic servants are required to pay assessments by way of domestic contribution stamps through the Post Office to "National Pension Scheme Authority" (NAPSA). Approach NAPSA for details.

10.1 WCF Contributions

After an employer has been registered he will then be asked to estimate the earnings of his workers for the current year, i.e. from 1st April to the following 31st March, and to pay a provisional assessment on his anticipated workers' earnings in accordance with the rate prescribed for his particular class of business.

Any under- or over-payment of the provisional assessment is adjusted after the end of the assessment year when the actual earnings of workers for the year are known.

Only the employer makes a yearly contribution known as an assessment payment. The payments are not uniform across all employers, they are determined by the degree of risk associated with a particular activity and they range from 2.82% to 6.93% of the total employees' earnings. The highest risk is in the mining industry while the lowest is in personal services and financial industries

The Workers Compensation Fund Control Board has issued a public notice which informs the year end for the WCF has changed from 31 March to 31 December. Effective date is 1 April 2020.

10.2 Assessment rate

These are prescribed rates (%) for each particular class of business as fixed from time to time by the Workers' Compensation Fund Control Board. The rates of assessment are published in the Government Gazette.

Employers may contact the Workers Compensation Fund for these rates.

10.3 Assessable earnings

For the purpose of assessment and compensation, earnings mean any payment made to a worker which arise out of his/her employment and include:

- (a) Salary/wages and allowances
- (b) All overtime payment of a regular nature

- (c) Shift differential payment
- (d) Payment made to casual workers employed in connection with employer's nature of business
- (e) Leave pay if not included in (a) above, and
- (f) An addition of 12.5% to the total of items (a) to (e) to cover food and quarters.

The Workers' Compensation Act provides for a ceiling (currently K9 600 per year) on the amount of a worker's income upon which assessment and benefits are calculated. If a worker's earnings are in excess of this ceiling, the excess is disregarded for the purpose of assessment and compensation. Where the earnings of any worker exceeds K9 600, then only K 9 600 should be declared in respect of that worker.

Note that the maximum of K9 600 is applied to the income from (a) to (e.) and then the 12.5% is added to that before we apply the given rate. In other words, the K9 600 limit is on the actual income earned. See illustration below.

	K
Salary	8 000
Overtime	1 500
Shift	500
Total of (a) to (e)	10 000
Max allowed	9 600
Add 12.5% of total income	1 200
Assessable Income	10 800
WCA at 3.53%	<u>381.24</u>

<http://www.workers.com.zm>

11. Local Authorities Superannuation Fund (LASF)

The Local Authorities Superannuation Fund is a defined benefit scheme responsible for the pension cover of members in all the Local Authorities (Councils), Water and Sewerage Companies,

the ZESCO and the National Housing Authority (NHA).

In terms of Section 20 of the LASF Act, contributions are a first charge on the salary or wages payable to the members of the Fund and are required to be remitted to the Fund with the employer's contributions before the 7th day of every month.

In other words, pension contributions are statutory and it is the responsibility of employers to remit such contributions to LASF.

The contributions are currently at 10% of basic salary for employees and 23% of basic salary for the employers.

12. Skills Development Levy (SDL)

The Skills Development Levy Act, 2016 was assented by the President of Zambia on 27th December 2016; and it came into operation from 1st January, 2017.

This Act introduces a new statutory contribution for employers in Zambia.

12.1 Administration and payment of contributions

The due date for payment and return filing of SDL is the 10th of the month following the month in which the SDL becomes due.

The SDL will be paid into the Technical Education, Vocational and Entrepreneurship Training Authority Fund. However, the SDL remittances shall be collected by the ZRA.

SDL will be administered under the ITA. Penalties under the ITA will be applicable for non-compliance. Late return filing and payment of SDL would attract penalties and interest as provided for under the Income Tax Act.

12.2 Contributions

Contribution is 0.5% of the gross emoluments payable to an employee including a casual employee.

Paid by the employer only.

Contribution is made on a monthly basis.

12.3 Exemptions

The levy is not payable by:

- An employer in the public service or a local authority;
- An employer whose annual turnover is below K800 000; and
- A public benefit organization (PBO) approved as such under the Income Tax Act (ITA).

12.4 Basis of the contributions

"emolument" means any salary, wage, overtime or leave pay, commission, fee, bonus, gratuity, benefit, advantage (whether or not that advantage is capable of being turned into money or money's worth), allowance, including inducement allowance, pension or annuity, paid, given, or granted in respect of any employment or office, wherever engaged in or held;

13. National Health Insurance (NHI)

Zambia has introduced a new statutory contribution called The National Health Insurance (NHI) under The National Health Insurance Act No.2 of 2018. This is a health insurance scheme which entitles contributing members to a predetermined set of healthcare benefits.

13.1 To whom does the NHI Act apply?

This applies to you all Zambians and established residents in the country.

Employees from both the informal and formal sectors. Employers will partly contribute for their employees and remit contributions to the Authority.

13.2 Who will be exempted from contributions for NHI Scheme?

- A person above the age of 65 years will not contribute to the scheme but will benefit
- Poor and vulnerable people will be exempted after being assessed by the Ministry Community Development and Social Welfare
- Mentally or physically disabled persons who are unable to work and any other person as may be prescribed by the Minister

13.3 Contribution rate

Employee - 1% of Basic Salary

Employer - 1% of Basic Salary

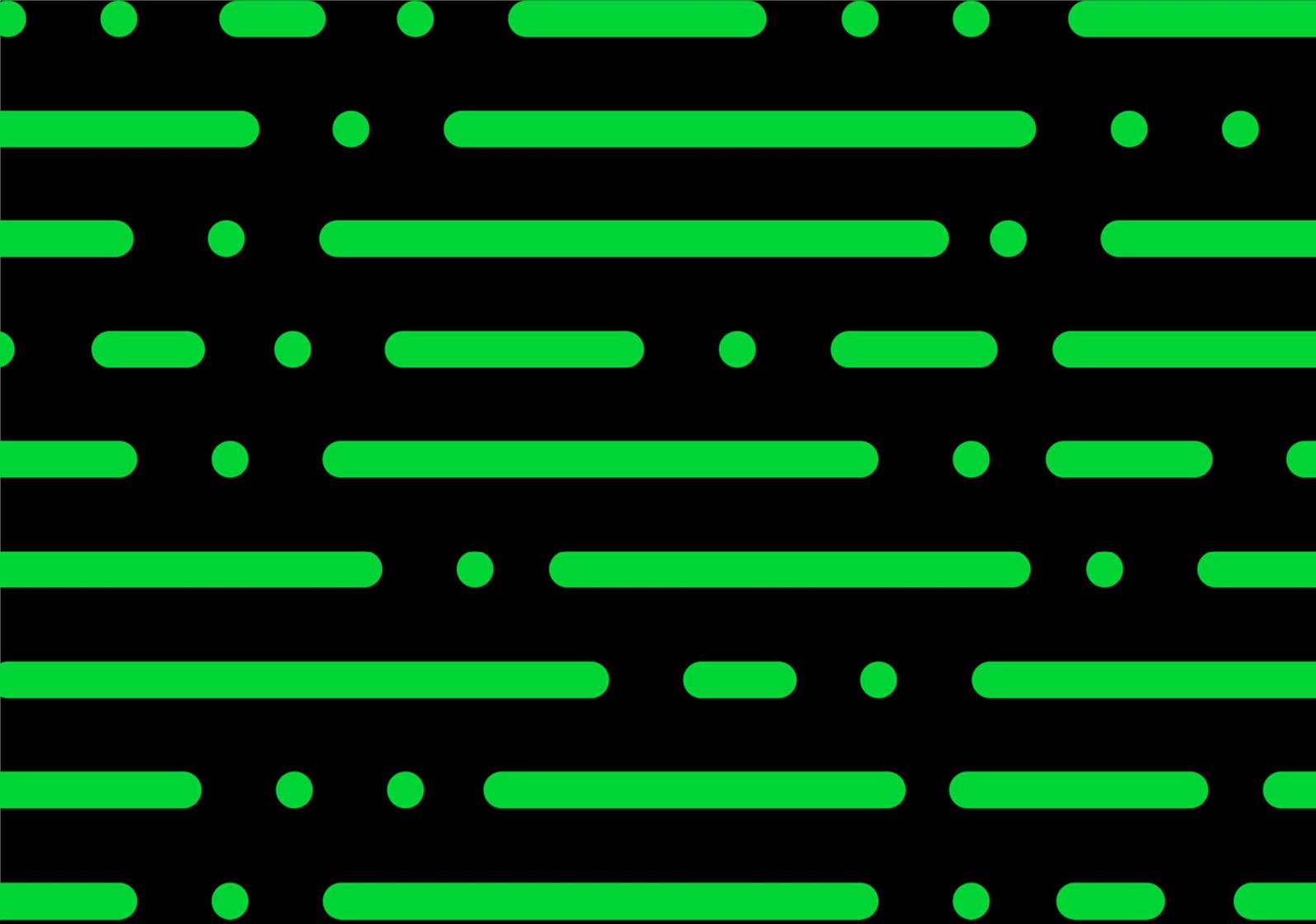
13.4 Frequency

Monthly

Deadline for submission is the 10th of the following month.

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