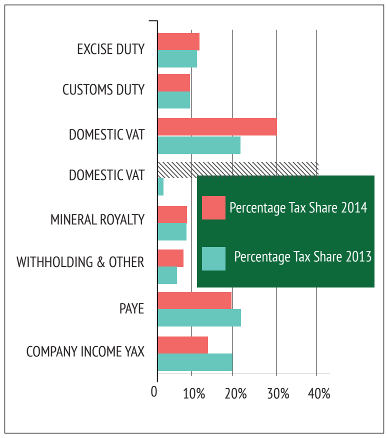
PMRC ANALYSIS OF DOUBLE TAXATION AGREEMENTS

Towards optimised tax revenue collection

Corporate and Withholding (WHT) taxes are significant contributors to Zambia's total tax revenue. In 2013, these taxes contributed approximately 20.3% and 5% to the budget, respectively. However the ability of Government to collect these taxes has been hampered by Double Taxation Agreements (DTAs).

A Double-Taxation Agreement (DTA) is a contract signed between **two countries** to prevent the imposition of similar taxes on the same taxpayer with respect to the same income or capital. Zambia currently has **22 Double Taxation Agreements** primarily with developed countries.



Source: 2013/2014 Budget Address

Domestic Vs. DTA Rates

5 of the 22 Zambia DTA's

Although DTAs are signed with the expectation of attracting Foreign Direct Investment (FDI), recent studies by Baker (2012) and McGauran (2013) conclude that DTA's have no substantial impact on attracting FDI but rather lead to unnecessary tax revenue loss. For example, through the recently signed UK-Zambia DTA UK investors will now pay lower withholding taxes than they would without the DTA.

Withholding Tax	Domestic Rate	UK Treaty Rate (2014)	China Treaty Rate (2010)	India (1981)	South Africa (1956)	Kenya (1968) Ireland (1971)
Dividends	15%	5% (except when accruing to immovable property when taxed at 15%)	5%	5%	15%	0%
Interest	15%	10%	10%	10%	15%	0%
Royalties	20%	5%	5%	10%	15%	0%

Source: CTPD (2014), IMF Report, 2013

Top 10 Most Determinants of FDI Location

Data indicates that factors that do contribute to FDI are:

- Access to customers
- Stable socio-political environment
- Ease of doing business
- Reliability and quality of infrastructure
- Ability to hire technical professionals
- Ability to hire skilled labourers
- Crime and safety
- Cost of Labour
- Level of corruption
- Ability to hire management staff

Source: IMF Report, 2013

WHAT DO DOUBLE TAXATION AGREEMENTS (DTA'S) MEAN FOR ZAMBIA?

EVIDENCE SUGGESTS THAT DOUBLE TAXATION AGREEMENTS LEAD TO:

Exchange of information and anti-tax avoidance mechanisms emphasized in new DTAs

Vs.

- Tax Revenue Loss
- Reduced contribution to poverty reduction and service delivery
- Limited impact on attracting FDI
- Possibility of use of DTAs for tax evasion and avoidance

PMRC RECOMMENDATIONS

1. Undertake an impact assessment of existing Double-Tax Agreements to determine the costs and benefits and cancel non-beneficial DTAs.
2. Continuous Training of Tax Officials in International Taxation and enhancement of negotiating skills of tax officials.
3. Focus on top factors that attract FDI.

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