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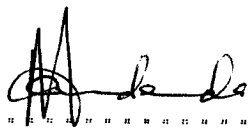
THE ADMINISTRATION OF INDIRECT TAXATION
SYSTEM IN ZAMBIA: THE CASE OF SALES TAX
BY CEYLON MUDENDA

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ZAMBIA IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF
PUBLIC ADMINISTRATION, 1993

DECLARATION

I, CEYLON MUDENDA DO HEREBY SOLEMNLY DECLARE THAT THIS
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TO MY WIFE JOYCE

APPROVAL

This dissertation of Ceylon Mudenda is approved as fulfilling part of the requirements for the award of the degree of Master of Public Administration of the University of Zambia.

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Sales tax policy and socio-economic development have been analysed in Chapter Four. Areas of interest in this chapter have been, sales tax tariff - policy implications, rebate store and drawback systems, remission, sales tax policy and resource allocation and utilisation of the incentive system by industries. Problems in sales tax administration were evaluated in Chapter Four while main observations, conclusion and recommendations take their place under Chapter Five.

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CHAPTER ONE

INTRODUCTION

The Zambian Government uses various ways to raise revenue. As is the case in many countries, there are two main categories of the sources of government revenue. These are, tax and non tax revenues. The tax revenue is divided into two categories - direct and indirect tax. The latter is the focus of this study. Indirect tax is levied on customs, excise and sales of products or provision of services. This study focuses on sales tax.

During the period before 1975, sales tax in Zambia was administered as an appendage of the Customs and Excise Act. During this era, the sales tax system was faced with a lot of administrative problems because the type of system to which it was appendaged was not oriented to its management. Such problems were the identification and registration of sales tax dealers, hence the problem of revenue generation, inability by dealers to record and remit the revenue to the Government, thus withholding tax. The other problem was the presence of the non differentiated tax rate structure which could have a bearing on evasion of tax and local industrialisation.

However, in 1975 a separate Sales Tax Act was promulgated. Therefore, this study tries to assess as to what extent the above mentioned problems have been addressed in this new system.

1.1. PROBLEM AREA

During the period before 1975, Sales Tax was administered as an appendage of the Customs and Excise Act as excise duty. In principle, this entailed that all administrative issues relating to excise were supposed to be wholly applicable to the sales tax system. In practice however,

this was not the case, as this appendaged management became faced with a lot of administrative problems when applied to sales tax. This was so because the system in question was specifically designed for excise and not sales tax. In short, it may suffice to say that these administrative problems all led to the evasion of sales tax. The difficulties which were encountered are, the identification and registration of the sales tax dealers, thus, the problem of revenue generation, inability by dealers to record and remit the revenue to the Government; thus, withholding tax. The old system also had a uniform tax rate structure and this posed as a problem to local industrialisation as no commodity attracted tax at a lower rate in comparison to others so as to act as an incentive to local industrialisation.

In 1975, through the Sales Tax Act, sales tax had to be managed through its own system. From the foregoing a question may be asked as: to what extent has the 1975 sales tax system alleviated the problems specified in the research problem above?

1.2 OBJECTIVES

In view of what has been outlined in the research problem and the specific question identified above, the main objectives of the study are as follows:-

- a. The main pre-occupation of sales tax seems to be increasing Government revenue. It becomes interesting to find out as to what extent this objective is being fulfilled. In relation to this, one can identify a lot of policy related problems. For example, in an attempt to raise revenue, the coverage of taxable commodities has been widened.
In line with this, it interesting to find out what effect this coverage would have on the basic necessities of life.
- b. The study also assesses the impact of sales tax on income distribution.
- c. To assess the effect of rate differentiation to evasion of tax.

- d. To assess what effect the sales tax would have on local industrialisation since local sales tax increases the price of a commodity despite the fact that locally produced goods are generally of poor quality in relation to imported goods.
- e. To assess the effectiveness of the methods used in identifying and registering dealers so as to ease the problem of revenue generation.
- f. To assess the efficacy of the methods used by the Government to ensure that the dealers keep proper records and remit the revenue to the Government.

1.3 RATIONALE OF THE STUDY

The rationale of this study is at two levels, policy and theory. At the level of theory, the study is an addition to an almost non-existent knowledge in the field of sales tax administration in Zambia.

At the level of policy, since there is no study of a similar nature that has focused on sales tax in Zambia, the study offers an opportunity to evaluate the system in question. To the Government, the study is important because it has highlighted the evolution and problems in implementation of the policy and thereby showing the efficacy of policy implementation. To the implementing organisation (Customs and Excise Department) the study has provided an opportunity to reflect its efforts in implementing the policy so as to re-adjust where necessary.

1.4 LITERATURE REVIEW

Much of the existing literature on indirect taxation focuses on the economic aspect and consequently, most of the observations drawn from the policy implications of indirect

taxation tend to focus on trade policy issues and how this affects local industrialisation. Such a generalisation could be misleading as this assumes that sales tax has similar effects like the other indirect taxes on local industrialisation. The issue that comes to mind is that of the protective aspect of Customs duties on the local industries. However, this could be misleading unless the impact of sales tax is analysed on its own, thus separate from the other indirect taxes - customs and excise duties.

John F. Due has looked at the administrative side of sales tax and in his work, has analysed a lot of issues, such as sources of evasion of sales tax, obstacles to effective administration, requirements for effective operation, tax payer identification and classification, the system of returns, audit and the information system.

He has identified as one of the sources of evasion of tax, the failure by firms to register their businesses and pay the tax. This is a prevalent problem especially in countries with a lot of emerging small firms which produce taxable goods. In addition, evasion of sales tax could be effected by the firms under-reporting their gross sales. As if this is not enough, dealers can record half of the sales or not at all in a bid to evade paying the tax. He has also noted that it is possible for the vendors to keep more than one set of records so that one is used for tax purposes and the other for their own purposes. He has further pointed out that the chief type of tax evasion in developed countries is that of recording taxable sales as exempt sales. As if to crown it all, he has also observed that it becomes very easy to classify goods at lower rates in a system with differentiated rates.

The precision of the above observations find evidence when John F. Due pointed out that:-

"evasion of sales taxes arises through several routes:-

- Failure of firms to register and pay tax. This may be prevalent in a country with large numbers of small firms subject to tax, but it is relatively easy to detect with a strong effort.

- Under-reporting of gross sales. Vendors may not record all sales or any sales at all, or they may keep two sets of recrds, one for their own purpose and one for tax auditors.
- Recording of taxable sales as exempt sales. This is a major source of evasion, and probably the chief type in more developed countries.
- With differentiated rates, the misclassification of goods into lower rate classes."¹

After having identified the sources of evasion of sales tax, John F. Due also looked at the obstacles on effective administration. He identified them as:-

- "a) Shortage of trained personnel.
- b) Lack of trained accountants in business firms to keep satisfactory records of sales and purchases.
- c) Tradition of tax evasion.
- d) A final obstacle is the nature of Governmental personnel policy in the field of tax administration. Employees may be selected on a political patronage basis rather than for their qualifications. Even more commonly, salaries are inadequate to attract and retain the type of personnel required."²

He further went on to provide some requirements for effective operations. His contention is that effective administration is necessary to curb some irregularities in sales tax. Those requirements he identified are as follows:-

- "1) An effective staff of adequate training size and qualifications, with suitable training programs and salary, adquate controls to ensure efficiency and prevent bribery, and development of a co-operative attitude between inspectors and vendors.

- 2) A suitable electronic data processing (E.D.P.) System, E.D.P. equipment can be used to address returns, to record tax payments and provide internal balances to check arithmetic, to ascertain delinquent accounts and address delinquency notices and ultimately to aid in identifying accounts that are most likely to require audit.
- 3) Simplicity of tax structure.
- 4) The establishment of simple, well defined, effective procedures and suitable forms.
- 5) An adequate yet equitable system of penalties that is used effectively. Low penalties are ineffective, while excessively high ones are rarely applied by administrators or courts and create ill will when they are.
- 6) An effective check upon the accuracy of returns through an audit program."³

Registration of dealers is one of the administrative aspects observed by John F. Due. This is an important aspect because through registration, information necessary for effective administration is gathered. He terms this as 'taxpayer identification and classification.' He points out that:-

"With all sales and excise taxes, the initial step in operation is the registration of all vendors subject to the tax. Registration forms record the information necessary for effective administration. One important item is the nature of the business which is required."⁴

Commenting on the system of returns, he noted that simplicity of returns is necessary for easy administration. He also observed the need for audit:-

"to examine sales records to make sure that the tax is being applied to all taxable sales and that taxable sales are not being recorded as exempt sales."⁵

The dissemination of information is one of the administrative aspects. This is very vital to the dealers because if they get the right information, then they would be able to adapt to changing situations. His observation is that:-

"when a tax is introduced or changed, information should be widely disseminated through newspapers, trade associations, trade journals, and direct distribution of literature to the vendors - hand delivered if necessary. Informational visits by revenue personnel to places of business and local conferences for vendors are particularly helpful. Tax inspectors should also visit new vendors to give them adequate information."6

As mentioned elsewhere, one of the objectives has been to find out as to what extent revenue generation has been fulfilled in terms of sales tax. Commenting on the same John F. Chown has observed that indirect taxes are in most cases used as revenue generators though sometimes there may be other objectives. His contention is that:-

"Indirect taxes are mostly used simply to raise revenue, sometimes there are other objectives. Higher rates of tax may be imposed on what are thought of as 'luxuries' presumed to be bought by the rich and there may be lower rates or exemptions on food and other so called necessities."7

While the above observation is a generalisation on indirect taxation, this study, as mentioned elsewhere analyses sales tax on its own so as to determine how this tax features in relation to the other indirect taxes. The study therefore, is a departure from such a wholistic approach to a specific focus.

John F. Due has also observed the importance of indirect taxation in developing economies. For example, he has argued that goals of developing economies like the acceleration of growth in economic development, income distribution, resource allocation and price stability can be influenced by the revenue structures of indirect taxes. His observation is that:-

"Some Government such as those of Tanzania and Zambia, stress the importance of minimising inequality in income and are willing to sacrifice some growth in national income to ensure the desired pattern."⁸

While the above generalisation is true, this study has analysed sales tax on its own and its effect on the acceleration of growth in economic development, income distribution resource allocation and price stability. These are policy issues and by analysing sales tax on its own it becomes interesting to determine policy implications in relation to the above mentioned issues.

Richard M. Bird, undertook a study in sales tax with lessons drawn from the Columbian experience. Commenting on the differential rate structure, he noted that while this may be justified in terms of its effects on aspects like resource allocation and income distribution, the differential rate structure has got its negative effect. He observed that:-

"The most obvious structural feature of the Colombian sales tax is its differential rate scale. Rate differentiation increases the possibility of evasion (as well as the incentive to evade)...⁹

This argument, as mentioned elsewhere has also been acknowledged by John F. Due that the presence of a differentiated rate structure, is in itself a source of evasion as dealers find it easier to classify goods at low tariff rates and thereby evading tax.

The issue of "exemption" was also tackled by

Richard M. Bird. He noted that exemptions from sales tax of "basic necessities" had an impact of reducing the regressivity of the sales tax, while the complete exemption of food, drugs and school materials had effects on resource allocation. The substance of the matter is echoed when he noted that:-

"unconditional exemptions have been granted for a number of "basic necessities". The probable impact of these exemptions is to reduce the regressivity of the sales tax. In addition, however, the complete exemption of food, drugs, and school materials (as

well as of all services) had various effects on resource allocation. One such effect might be to shift still more of the demand of the low-income groups to the now relatively cheaper food items. The result of exempting food is likely to be some upward pressure on food prices insofar as consumers are able to substitute untaxed food for taxed non food consumption."10

The above observation is an important issue on policy implication of the sales tax. It is interesting to find out how the Zambia sales tax structure treats such commodities like food, drugs and school materials.

Commenting on the same issue, Levin Jonathan observed that:-

"Food is often excluded by sales tax legislation for reasons of equity, and services are often excluded because of the administrative difficulties that they entail..."11

The issue of the exemption of services from sales tax becomes interesting when we draw our observations from the Zambian experience especially when one notes that the services in Zambia are taxable. This seems as if administrative difficulties of the sales tax are universal in Zambia and are not influenced by the nature of the commodity. I have argued in this way because if services in Zambia had their own administrative difficulties, then, all of the services would have been exempted from sales tax; but this is not the case, implying that sales tax administrative difficulties are universal to all types of commodities. The observation put forward by Levin Jonathan is not applicable in Zambia because the very fact that services are taxable means that the administration of goods and services is the same.

Joseph M.F.W. has argued that the tax rates should be kept as low as possible by levying tax on many commodities. He has however, acknowledged the administrative expenses that may have to be associated with levying sales tax on a wide coverage of commodities. His contention is that:-

"tax rates should be kept as low as possible. From this, it follows that apart from administrative expenses, it is better to collect any desired revenue by taxing many commodities lightly rather than few heavily. If, however, it is decided nevertheless to tax only a few commodities, it is better to tax those whose total sales are greatest, since the rate of taxation will need to be proportionately lower."12

A study on the development of the goods and services general sales tax (G.S.T.) was conducted in New Zealand by

Alan Teixeira, Claudia Scott and Martin Devlin. These researchers found out that the richest households actually purchase more of the necessities of life like food, clothing and footwear than the poor households. They therefore, concluded that if necessities of life were exempted from sales tax, then instead of spreading the benefit of exemption to the low income people, the benefit goes to the rich people who purchase the necessities more than the poor people. They concluded that sales tax should be levied on necessities.

As regards the expenditure on clothing and foot wear (apparel), they observed that:-

"out of every \$100 which New Zealanders spend on clothing and footwear items, \$19.50 is spent by the richest 10% of households, compared with only \$2.50 for the poorest 10 per cent. If clothing and footwear - certainly necessities of life - were exempted from G.S.T. (General Sales Tax), then the benefit to the richest households would be nearly eight times larger than the benefit to the 10 per cent of households with the lowest spending. Trying to assist low income people by exempting selected items from G.S.T. simply passes benefits to the rich very much larger than those which are conferred on the people most in need of help and protection."13

Commenting over expenditure on food (excluding take away), the above mentioned researchers noted that:-

"out of every \$100 being spent on food in New Zealand, the richest 10 of households spent \$12, whereas the poorest 10% spend only \$6.50. In other words, if food were exempted from G.S.T., the benefit to the richest households would be almost twice as big as the benefit to the poorest 10% of households."14

James Cutt has indicated that the collection of local sales tax in India is governed by state laws, and only registered sales tax dealers providing goods or services of a specified taxable quantum per year are allowed to collect sales tax from the purchaser. He has pointed out that:-

"Sales tax liability in India is imposed on and collected from registered dealers under the state sales tax laws, registration is required of all dealers whose annual gross receipts exceed the minimum limits established for tax liability... and only a registered dealer is entitled to collect the tax payable to him from a purchaser."15

The above component of the sales tax system is of great importance because this study has also looked at the registration of sales tax dealers and thereby determining its significance in the administrative control system of sales tax in Zambia.

As mentioned in the research problem, revenue generation is one of the aspects that has been looked into in the study. On the same issue, Kenneth Davey observed that:-

"developing countries typically rely heavily on indirect taxes such as import duties, excise and sales taxes. In 1968, these contributed 77 per cent of India's tax revenue and 80 per cent of Ghana's contrasting with 21 per cent in the U.S.A. and 37 per cent in West Germany."16

His argument is that, as the country develops, indirect taxes shift from being primarily for revenue to being protective. However, it is vital to note that his observation above has been focused on all the three indirect taxes. While it is true to

generally say that developing countries rely heavily on indirect taxes for revenue, this study has departed from such a generalisation of indirect taxation, by taking a specific tax-sales tax.

Clara K. Sullivan regards sales taxes as control devices. She has argued that sales tax may be imposed for selective fiscal control by discouraging the production or consumption of particular products. Her observation is that:-

"instead of being regarded as a method of allocating the general tax burden, sales taxes may be imposed for the purpose of selective fiscal control, that is, the discouragement of production or consumption of certain products. Output in the taxed sectors is expected to be reduced or discontinued with the released factors of production supposedly moving to the non-taxed areas."¹⁷

This is an interesting aspect raised by Sullivan K.C. and it deserves attention. One becomes interested to pursue the issue further and determine whether or not her observation applies to the Zambian experience as well.

Commenting on the importance of revenue in India, R.N. Bhargava has pointed out that:-

"The sales tax, which is levied in all the states has become an important source of revenue. It was developed... to find funds for financing development expenditure."¹⁸

The above factor has got a relation to this study because it also looks at how the pre-occupation of revenue generation is being fulfilled in Zambia.

In matters of policy implications, the issue of increase in prices of commodities has been looked at in the study. Harry Gunnison Brown has argued that it is difficult to assume that a tax imposed on a commodity raises its price and decreases its supply. He has further pointed out that a general tax cannot reduce the supply of a commodity unless workers remain idle. He has argued that:-

"it is generally recognised by students of taxation that a tax on the output of a particular commodity raises the price of such a commodity by decreasing its supply. But what if there is a tax on the production of all commodities and services - an equal proportionate tax on all lines of productions. Will such a tax raise prices? Such a general tax cannot reduce the output of goods unless workers are willing to remain idle."19

While one may agree that a tax may not reduce the output of a commodity, I think that whether or not an equal proportionate tax is levied on all lines of production and on all commodities, the final price of a commodity will be raised. I have taken this line of thought because, I believe that, minus a tax, the price of a commodity cannot be as high as when there is a tax on it.

Mahesh C. Purohit, in his study of the sales tax system in India, highlighted some reforms which were essential for proper implementation of the sales tax system, like the structure, the information system and the operational problems relating to the enforcement of the tax law. He pointed out that because of less efficiency in the administration, evasion of sales tax was rampant, hence the need for an effective administrative system. His observation is that:-

"The commercial taxes department that administers the tax, feels that efficiency is so low in its administration that evasion of the tax is rampant. This is a very dangerous phenomenon because our failure to properly administer the tax law defeats its very purpose and threatens the canon of equity."20

The other important administrative aspect identified by Mahesh C. Purohit, is the development of the information system. According to Purohit, the Research and statistics wing (RSW) in India was supposed to gather enough data for the proper enforcement of sales tax and for the evaluation of the administration. This was regarded as essential because if

precaution was taken on the acquisition of adequate and up-to-date data tax evasion would be avoided. The observation was that, the:

"Research and statistics wing (R.S.W.), should be able to collect adequate and up to date data for the proper enforcement of the tax and for the evaluation of the administration as well as of the impact of the tax. Such an evaluation is an essential feedback for proper tax policy formulation and introduction of legislative changes. The major aspects on which data must be collected and collated are:-

- a) Commodity wise turnover and tax yield;
- b) Turnover and yield of Central Sales Tax;
- c) Flow of revenue quarter by quarter;
- d) Trends of turnover;
- e) Distribution of registered dealers by size of turnover with corresponding tax paid;
- f) Yearly assessments, collection and arrears; and
- g) Flow of goods across state borders, etc."21

1.5 OPERATIONAL DEFINITIONS OF KEY CONCEPTS

SALES TAX: According to Clara K Sullivan, "sales tax may be defined as general taxes on sales of products. 'General' meaning that the taxes apply to all, or a wide range of goods and services."22

EXCISE DUTY: Is the revenue collected by the Government on locally manufactured goods which are not liable to domestic sales tax.

CUSTOMS DUTY: Is revenue collected by the Government on dutiable imported goods.

IMPORT SALES TAX: Is an additional revenue collected by the Government on an imported commodity upon which customs duty is payable

1.6 METHODOLOGY

The data was collected through the review of relevant primary and secondary information that became available. This was supplemented by unstructured interviews. This method was used to gather data which helped to explore the operational administrative problems for the period before and after 1975. A sample of twenty five customs employees selected at random was used to provide primary information.

In order to extract information on policy implications, a survey of fifty registered sales tax dealers in Livingstone collectorate was carried out through the use of unstructured interviews. Pre-set open-ended questions were used to acquire the necessary information from these organisations. Some examples of the types of these open-ended questions are attached as appendix (A). The questions were directly administered by the researcher.

In order to analyse the data, the researcher used some simple statistical interpretation like tables and percentages.

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CHAPTER TWO

DOMESTIC SALES TAX MANAGEMENT BEFORE 1975

Sales tax in Zambia has undergone two different types of administration. The first stage was 1973 stage when it was an appendage of the Customs and Excise Act. The second state began in 1975 when a specific Sales Tax Act was introduced. It is imperative to show how these two systems operated in order to identify the operational problems, procedures, control devices and policy implications. This Chapter looks at these problems for the period before 1975.

Before we address the above problem, it is pertinent to clarify the terminology 'surtax' as it has evolved in Zambia, and will be frequently used in this Chapter. Temporarily introduced as 'surtax' in 1974, this form of tax was levied on imported dutiable goods at a specified flat percentage rate of the value for duty purposes. The reason for its introduction was that this was the period when the copper prices at the World Market went down while at the same time, the oil prices went up. This meant that Government revenue went down. The Government had to find ways of raising revenue, and hence the introduction of 'surtax'. The Economic Research group of the Institute for African Studies of the University of Zambia, has noted that:-

"The balance of payments position started to decline in 1969 and its deterioration accelerated since 1975 mainly due to falling copper export earnings."1

It is against the above background that the Zambian Government introduced a 'surtax' principally for revenue generation to supplement the tax revenue of the Government. This 'surtax' is the one which became known as the import sales tax in 1975 with the promulgation of the Sales Tax Act.

On the other hand, there is a 'surtax' charged on opaque beer in addition to the excise duty levied on this

commodity. When this terminology 'surtax' is used in this chapter, it refers to the extra tax levied on opaque beer and not the outdated 'surtax' which has been substituted by the term 'import sales tax'.

The domestic sales tax of which this study is concerned about, was first introduced in its simplified form in 1973 and its management was under the Customs and Excise Act. It was stated in the afforesaid Act that:-

"The provision of this Act shall apply, mutatis Mutandis and in so far as applicable, to the charging, levying, collection and payment of sales tax... as they apply to the charging, levying, collection and payment of excise duty."2

This type of tax was at that time levied on a limited variety of commodities like radios, footwear, locally manufactured biscuits, clothing, fencing wire, soaps and detergents, sugar, tyres and tubes and hotel services.

The above goods were locally produced and this meant that since they fell under the local sales tax schedule, they did not appear under the excise schedule, despite their management being appendaged to excise administration. This separation in schedule made identification of goods easier because, though the two schedules covered locally manufactured goods, double taxation was avoided. It should however, be noted that the scope of the sales tax policy at that time was narrow in two ways. The first one was manifested through the short list of commodities which were covered in the sales tax schedule and secondly, the narrowness of the scope was seen through the very fact that sales tax was managed as an appendage. From the above two factors we have been able to lay the foundation of our investigations. For example, even if sales tax administration was an appendage of the other type of system, most of the administrative elements in excise management could not be visibly and easily applied to sales tax. Policy implications could also be drawn from the two factors above. To help demonstrate how sales tax was managed before 1975, let us explore the system to which it was appendaged

and in this way we will be able to identify the administrative procedures, problems and control mechanisms as well as policy implications at that time.

2.1 ADMINISTRATIVE PROCEDURES, PROBLEMS AND CONTROLS

As mentioned elsewhere, information regarding the causes of administrative problems was acquired through the use of unstructured interviews and a question asked to this effect had these responses from twenty-five interviewees - customs employees.

Table 2.1: Causes of administrative problems

No. of responses	Percentage	Causes of Problems
20	80	Policy was not elaborate
5	20	Transport
TOTAL	25	100

Because the response represented by 20% above was too general as to comprehend exactly what was meant by 'policy was not elaborate', the interviewees were to give specific provisions of the policy which were problematic to administer and the responses given varied amongst the following:

- a) Licence.
- b) Process of manufacture of commodities.
- c) Machinery used to produce taxable goods.
- d) Registration of sales tax dealers.
- e) Specification of management styles to some specific commodities.
- f) Issue of deficiency in stock.

In the following text, we shall examine how the above elements posed as problems when trying to implement the policy

before 1975. Since sales tax was managed as an appendage of the Customs and Excise Act as excise duty, this followed that all the administrative requirements for excise duty were to wholly apply to sales tax; but this was not the case.

A licence was a very necessary aspect for producers of both excisable and sales taxable goods. This was because once a producer acquired a licence for the production of a certain product, then it meant that he was legally authorised to produce the same. Those manufacturers of goods liable to excise or surtax who produced their commodities without a licence, acted outside the requirement of the policy which stated that:-

"no person shall manufacture on any premises any of the goods set out in the excise tariff or the surtax tariff or any potable liquid, other than honey beer, containing more than three percentum of proof spirits otherwise than in accordance with the conditions of a licence or whilst the licence authorising to manufacture the goods or liquid is suspended."3

The above requirement of a licence was also applicable to the management of the sales tax system but there was a divergence in the way licences operated between these two types of tax administration - sales tax and excise. For example, a licence issued to a sales tax dealer to manufacture a certain commodity, was only intended to manufacture that commodity upon which the licence was issued. This was not the case with the licence issued to a manufacturer of excisable goods. In the latter case, a licence issued for the production of one particular excisable commodity, was also used to manufacture more than one related commodity. For example, a licence issued for the distillation of spirits, will also allow the holder to produce not only one type of spirit but, all types of spirits and wine.

The above administrative aspect was a requirement of the policy and the provision was that:-

"a licence to distill spirits shall entitle the licensee to distill or produce all types of spirits

and wine, and a licence to manufacture tobacco, shall entitle the licensee to manufacture cigarettes, cigarette tobacco, pipe tobacco, cigars and snuff and a licence to manufacture hydrocarbon oil shall entitle the licensee to manufacture, produce or treat all products of hydrocarbon oil, but in every other case where more than one of the commodities set out in the excise tariff are manufactured, mixed or brewed, distilled, or produced on any premises, separate licences shall be required in respect of each commodity..."4

From the above evidence, it can be seen that this provision applied only to management of excisable commodities. However, one would wonder as to whether this was also applicable to sales tax dealers since the administration of these dealers was an appendage of the excise system. In such a case therefore, implementing the sales tax policy was problematic because intuitive judgement could not be ruled out on the part of those executing the policy. The problem arose because those executing this policy requirement were not sure as to whether or not every administrative requirement that applied to excise had to equally apply to sales tax as well. When it was found that some administrative aspects only applied to excise matters, those executing the policy were faced with the task of isolating which aspects had to actually apply to the sales tax system and which were not applicable.

In addition to the above, the afforesaid licence could only be issued after certain information has been supplied by the manufacturer to the Controller of Customs and Excise. This therefore meant that it was a necessity in the excise management for an applicant of a licence to furnish the Controller such information as to:-

- i) The nature of the goods liable to excise duty or surtax which the applicant proposes to manufacture; and

- ii) The process of manufacture which the applicant proposes to adopt; and
- iii) The premises at which and the machinery and equipment with the goods liable to excise duty or surtax are to be manufactured."5

The element of providing the process of manufacture referred to above was indeed easy to apply in administering excise since the intention was meant for that purpose. It was a different case when this requirement had to be applied to the sales tax system. The problem of application was acutely so among certain categories of sales tax dealers due to the nature of the commodity being produced.

A question was asked to twenty-five interviewees to specify the category of dealers which was found to fall within the problem area:- (of finding it difficult to provide the process of manufacture); and the responses were as follows:-

Table 2.2 Categories of dealers with problems in providing the process of manufacture

No. of responses	Percentage	Category of dealer
23	92	Hotel and restaurant
2	8	Clothing manufacturing
TOTAL	25	100

From the above data it is noticed that the complication of providing the process of manufacture largely befell the group of dealers that offered hotel and restaurant services to the public. This group is represented by 92 percent while 8 percent felt that it was difficult to provide the process of manufacture by those dealers engaged in the manufacture of articles of apparel and clothing. How does, for example, a dealer who is

engaged in the provision of hotel and restaurant services like 'tea and nshima' provide the process of manufacture of these services because there is no strict formula for the manufacture of the same.

In addition to the above, it was also felt that it was difficult to provide the process of manufacture for, say, a shirt in a clothing manufacturing industry because there could be so many designs to produce a shirt. This requirement (providing the process of manufacture) was not suitable for the production of excisable goods like clear beer, opaque beer, tobacco, products of hydrocarbon oils, etc.

The above two examples have shown that the sales tax policy during the period under consideration was not clear. It was not clear because when it was said that dealers had to provide a process of manufacture of their products it followed that each and every commodity had its process of manufacture to be presented to the Customs Department. The Customs officials found a problem when in reality it was not possible to obtain processes of manufacture to certain products like the one mentioned elsewhere.

The other condition of furnishing the Commissioner the type of machinery and equipment with which the goods liable to excise duty are to be manufactured was also problematic when it came to the extension of this application to registered sales tax dealers which provided services. The same example of providing meals and other hotel and restaurant services will suffice. It was rather not clear and easy to provide the machinery and equipment needed to prepare meals and other hotel services because there is no fixed type of machinery and equipment to provide hotel and restaurant services. For example, what type of machinery was to be provided for the preparation of 'tea'. This commodity can be prepared using various containers and so which of the various machinery could be provided? This was a problem. The situation was easy when it came to the provision of the process of manufacture and the machinery to be used in the case of excisable commodities like clear beer, opaque beer, tobacco, etc, because the provision was meant for that purpose.

The above observation simply demonstrates the fact that the sales tax policy as of 1973 was not elaborate. The policy was thus narrow as it did not specify which goods were subject to certain provisions, and whether the requirement of the policy also extended to all sales taxable goods or there were some exceptions.

The issuing of a licence is subject to the fulfilment of certain conditions. One of those conditions is that the premises in which excisable goods would be manufactured, should be arranged in such a manner as not to endanger the collection of revenue and the second is that a licence should only be granted in instances where the premises to be licenced are located within sixteen kilometres from a Custom House. In regard to the foregoing, it has been stated that:-

"no licence shall be granted in respect of any premises which appear to the Controller from their situation or otherwise, with reference to surrounding buildings or places of business ought to be so constructed or arranged as not to endanger the collections of revenue and no licence shall be granted in respect of any premises unless the premises are situated within sixteen kilometres of a town in which a custom house is situated provided that the Controller may grant a licence in respect of premises situated at a greater distance than that so specified if the applicant for a licence provides suitable office accommodation, free of rent, for an officer to supervise the premises and satisfactory board and lodging for and at a reasonable charge to such officer, or if other arrangements are made to the satisfaction of the Controller for the safe guarding of revenue."6

The above is a control aspect of the policy on the part of excise dealers so as to safe guard revenue collection. Let us determine the application of the aforesaid requirement to sales tax since this was an appendage of all such excise administrative aspects.

It has been indicated above that manufacturers of excisable goods should be located within sixteen kilometres from a custom house for easy control and that office accommodation and lodging should be provided by the manufacturer if he is operating at a far off place from a Custom House. However, this administrative provision became problematic when it was extended to sales tax management. A problem arose because one Custom House like Livingstone controlled areas like the whole of Western Province in sales tax administration, an area which is more than sixteen kilometres away from the controlling station - Livingstone. It was found out that there is not a single Custom House in Western Province though sales tax dealers operate in that area. If this policy element had to be strictly applied to sales tax operations, then this would require setting up Custom Houses within a radius of every sixteen kilometres from the sales tax dealer because people are free to set up, for instance, restaurants even in the remote rural areas. This would not be possible for the Government because it would be too expensive a venture to embark upon. This shows how difficult it was to manage sales tax since it was an appendage of the other system - excise.

In order to further demonstrate how problematic it was to implement the policy, an element of registration was also looked at. For example, within excise management to which the sales tax system was an appendage, there was no required taxable quantum set out in order for a sales tax dealer to qualify for registration. This meant that any dealer who manufactured sales taxable goods, became liable to charge sales tax without regard to the taxable value. This therefore, called for an arbitrary method of scrutinizing who should, and should not be registered. The drawback of the above is that if the Government concentrated on registering dealers with insignificant taxable quantum, then it would just be a waste of time, energy and resources both human and material for an insignificant revenue generated. To avoid wastage of the above mentioned resources, registration of sales

tax dealers should be done according to qualification of the taxable quantum and not just because a manufacturer deals in sales taxable goods.

The need for an excise manufacturer to enter into bond was an important procedural aspect in as far as the excise system was concerned. The excise manufacturer was supposed to enter into bond with the department of Customs and Excise otherwise business will be discontinued. The bond in question was to serve as surity to the Government in the event of a default by the dealer. As a matter of procedure:-

"no licence entitling a person to manufacture goods subject to excise duty or surtax shall be issued until the applicant therefore has entered into a bond, with sufficient surity to be approved by the controller, in a sum likewise to be approved by the controller, for the security of excise duty or surtax or both excise duty and surtax".⁷

The above procedural aspect of excise operations was easily applied to the sales tax system. In like manner, sales tax dealers were also required to enter into bond with the Department of Customs and Excise for security purposes in case the sales tax dealer defaulted.

Also prevalent within excise management, was the chance given to a manufacturer of excisable goods to amend the list of machinery, equipment or vessels to be used in connection with the manufacture of goods liable to excise duty which were not originally included in the list submitted to the controller. With regard to this aspect:-

"The controller may, on the request of the manufacturer of goods liable to excise duty or surtax, amend at any time the list submitted by the manufacturer."⁸

However, the amendment of the list submitted by a manufacturer of excisable goods depended on certain conditions. These conditions were that an amendment to the list could only be granted if the machinery, equipment or vessels which are capable or being used

in the production of excisable goods are brought into or installed in the licenced premises, when actually these were not described in the original list submitted to the Controller.

The second condition was that if the above mentioned machinery, equipment and vessels are kept or installed in a room, building or indeed any other place within the licenced premises, which according to the original list was not a room or building, then an amendment would be considered to the list. An amendment would also be sought if the purpose of the use of the machinery is changed to a different one from that originally described in the list.

The administrative aspects indicated above were suitable for excise operations because some vessels are fixed in certain rooms for specific operations. For example, we find fixed storage tanks in the manufacture of opaque beer, clear beer and spirits of which are excisable goods. The application of this requirement was problematic when it came to sales tax management because vessels and machinery were not always fixed for manufacturing operations to take place. This is yet another evidence to show how the narrowness of the sales tax policy as of 1973 provided problems to implementing the very policy.

Within excise administration to which the sales tax policy was an appendage, some commodities of the excise schedule were specified to determine how they had to be managed. This created another difficulty in terms of choosing from the sales tax schedule which goods could be allied to such type of management.

The example of the excisable commodities which had their own management styles were 'stills'. These stills had to be kept by persons who were licenced to distil spirits and had to be in possession of a certificate for authority to distil spirits. Once a person had been authorised to keep and use a still, he became obliged to keep it and use it only by complying to the conditions attached. The conditions are that the still should only be used by the person authorised to use it and only for the distillation of spirits. However, a person who is licenced to keep a still could also use it for:-

"The performance of laboratory work, analysis and experiments, including experiments in the manufacture of spirits and the purification of alcohol for those purposes."9

Once discovered that the management of specific excisable commodities was designed solely for their management and not for extension to sales taxable goods, those implementing the policy became faced with the problem of intuitive judgement as to whether or not such management styles of specific goods could apply to sales taxable goods.

Among other important requirements of the excise system was the need for manufacturers of excisable commodities to keep books of account and thereafter render returns. This is a control mechanism whereby all transactions by the dealer are properly recorded for verification purposes by the controller to guard against tax evasion. It was required that:-

"every manufacturer of goods liable to excise duty or surtax shall:

- a) keep a book in which shall be clearly recorded in the English language an account of all goods manufactured or partially manufactured by him during each month, the quantity sold, used or otherwise disposed of, the excise duty paid thereon, and the quantity on hand at the end of the month and, in addition, every manufacturer of tobacco shall keep an accurate account of all receipts of raw or leaf tobacco, whether in the leaf or other form, and disposals thereof, whether in the form of manufactured tobacco or not in respect of each month, and the stock on hand at the end of each month."10

The above administrative control aspect was easily applied to the management of sales taxable goods. This followed that sales tax dealers were under obligation to keep proper records of all transactions undertaken. The other element which easily applied

to both systems (excise and sales tax), was the need to effect payment of excise duty or sales tax in specified bills of entry. So, when we look specifically at excise administration to which the sales tax policy of the time was appendaged, we find that after the manufacturer of excisable goods has maintained proper books of accounts, he was under obligation to remit the excise duty to the proper officer in a prescribed excise bill of entry. This therefore entailed that:-

"any person paying any excise duty or surtax shall, when making such payment, present to an officer a bill of entry in the prescribed form, together with such additional copies of such bill of entry as may be required by that officer."11

The last administrative aspect in the excise sytem to which the sales tax policy was an appendage, is the issue of deficiency in stock. Within this system it was required that excise duty in respect of deficiency in stock be paid except in certain conditions and these are that:-

"when a deficiency is found on licenced premises in the stock of goods liable to excise duty or surtax, the manufacturer shall ...forthwith pay duty on the amount of the deficiency less any allowance which may be granted..."12

However, this excise duty payable on deficiency could be remitted under certain conditions like the deficiency in stock caused within the process of manufacture. This was genuinely so because in the course of the process of manufacturing excisable commodities like spirits, clear beer, opaque beer, etc., we expect some liquid to spill over and lost, may be through heating and an allowance is given for that. Secondly, duty is remitted when the goods are destroyed by accident or are lost by accident without going for consumption by the members of the public.

Remission of duty could also be effected if goods were destroyed or lost by accident while being in transit in bond. To be precise as regards the aobve, it has been stated that if:-

"goods liable to excise duty or surtax were destroyed by accident or lost, without going into consumption, whilst in transit in bond or in transit for export in bond or under a non-duty paid warrant for their removal and that every reasonable effort was made and precaution taken to prevent their loss or destruction the controller shall remit the duty or the excise duty or surtax as the case may be, payable on the goods."13

The issue of deficiency in stock was best suitable to excisable commodities like opaque beer, spirits, clear beer, etc., where it was possible to estimate the yield from a given quantity of input in production. This was difficult to apply when it came to goods subject to sales tax because there are no estimated yields in this category of goods. The same applied to the surplus stock. It was easy to find surplus stock from estimated yields in excisable commodities because increases in yield are more likely to occur in production of liquids like opaque beer if quantities added are more than the required specifications. This is not possible in the sales tax system especially when one considers the clothing manufacturing industry as an example. In this case, there is no estimated yield because pieces of clothing are cut according to sizes and not quantity.

Let us at this point show what kinds of goods are subject to the excise system. This is important because the reader is given an opportunity to actually see that even if the sales tax management was appendaged to excise administration, the goods subject to sales tax are different from those subject to excise duty. The goods subject to excise duty are as follows:-

1. Cigarettes
2. Manufactured tobacco:
 - a) Pipe tobacco
 - b) Tobacco contained in cigars, cheroots and cigarettes
3. Beer made from malt:-
 - a) Ale beer and stout
 - b) Opaque

4. Potable spirits:-
 - a) Brandy
 - b) Gin
 - c) Whisky
 - d) Vodka
 - e) Rum
5. Ethyl alcohol or neutral spirits, undenatured.
6. a) i) Waters including spa waters and aerated waters;

Lemonade, flavoured spa waters and flavoured aerated waters, and other non-alcoholic beverages.

ii) Fruit and vegetable juices.

b) Non-alcoholic beverages, flavoured not elsewhere specified or included, requiring dilution before use, for example fruit squashes, cordials, and syrups.
7. Petroleum oils, motor spirit (including gasoline and petrol but excluding aviation spirit:
 - a) Petrol
 - b) Gas Oil (diesel oil)
 - c) Low sulphur gas oil
 - d) Liquified petroleum
 - e) Illuminating Kerosene (paraffin)
 - f) Other residual fuel oils:
 - i. Heavy fuel oil.
 - ii. Light fuel oil.
 - g) Lubricating oil
8. Cane Sugar
9. Wine of fresh fruits.

As indicated elsewhere, transport was identified as one of the problems experienced in managing sales tax. This factor posed as a problem in that there were no vehicles specifically for sales tax inspection so as to get hold of dealers in distant

areas located far off from custom houses. The problems related to transport were two-fold. Firstly, even if a vehicle was made available for inspections it was too expensive to run the vehicle to required places while again officers on these inspections needed subsistence allowance. Both of these factors were costs on the part of the Government. Without transport, it was difficult to locate other dealers who were not yet registered but dealt in sales taxable goods. Further to these related problems, was the fact that when the registered dealers in distant places could not be reached easily due to lack of transport they resorted to posting their payments to respective Custom Houses. This was a problem because dealers used to send their returns late saying that delay was caused in the post. In this way, it was difficult to charge late payment penalty for late entries thereby making the system difficult to operate.

It is indeed reliable to relate the problems analysed in this Chapter to the policy itself because it was not elaborate enough as to specifically determine how the system was supposed to be managed. The substance of this is found in the statement that said:-

"There shall be charged, levied, collected and paid in respect of sale of goods and services sales tax at the rates specified in the fifth schedule on the value of such goods and services."14

As is shown above and as mentioned elsewhere that this policy was an appendage of the excise system, it meant that a lot of implications could be drawn from such a policy since there were a lot of gaps to be covered. For example, the system did not address itself to industrial growth as it failed to accommodate the incentive package to industries. The incentive package could be in the form of rebates, remissions and drawback as is the case in the attached appendix c of the sales tax regulations.

In addition to the above observation, the list of commodities which were subject to sales tax was very limited. Evidence of the narrowness of the coverage of commodities is found on the attached schedule of the old sales tax tariff as

appendix 'B' where only eight items were subject to sales tax. This scope of the coverage of goods seems to suggest the fact that even if revenue generation was the major aim of introducing this tax, revenue collection from this source would not be of any significance.

To further support the foregoing, let us look at the old sales tax rates. It is noticed that the tariff structure in the 1973 administration of sales tax there was the uniform nature of the tariff rate of 10% levied on all the items. So, from a narrow range of commodities and from a flat percentage rate of 10%, it could not be expected that enough revenue would be collected.

The tariff structure also implied that the policy failed to provide incentives to industrial growth. This was demonstrated in the uniform nature of the tariff rates of 10%. This implied that since there were no goods that fetched low rates, the tax burden was evenly distributed. The major issue here is that when a sales tax was imposed on goods, it followed that the prices of the commodities upon which sales tax was levied, increased. This increase in turn meant that the goods would not be easily sold and consequently the firms would not generate money quickly for re-investment, thereby slowing the process of growth.

It seems that the Government yielded to the problems shown in this chapter, and a separate Act specifically for the management of the sales tax system was promulgated in 1975.

FOOTNOTES

1. Institute for African Studies, working papers of the Economic Research Group Division for Development Research, Perspectives on the Zambian Economy, Lusaka, March, 1989, P.iii.
2. Zambia Gazette Supplement Acts, Lusaka, 1973, P.188.
3. Zambia Customs and Excise Act, Government Printer, Lusaka, 1955, P.61.
4. Ibid, P.61.
5. Ibid, P.62
6. Ibid, P.66 - 67.
7. Ibid, P.66.
8. Ibid, P.62
9. Ibid, P.63.
10. Ibid, P. 67 - 68.
11. Ibid, P. 69.
12. Ibid. P.70.
13. Ibid, P.70
14. Zambia Gazette Supplement Acts, 1973, P.187.

CHAPTER THREE

THE 1975 SALES TAX SYSTEM, PROCEDURES AND CONTROLS

In this chapter, an attempt is made to explain and analyse the new sales tax administration as provided for in the 1975 Sales Tax Act. The major issues addressed are, registration of sales tax dealers, taxable value, the incentive package and control mechanisms.

3.1 IMPOSITION OF DOMESTIC SALES TAX

The sales tax system of 1975 is managed through a specific policy which details out the necessary administrative aspects. However, before we go ahead as to give these requirements, it is important to, first of all, indicate that sales tax was imposed on certain category of dealers. The dealers who were to collect sales tax from the members of the public were those who were registered by Customs and Excise Department. As concerns the imposition of this tax therefore, it is required that:-

- (a) "any registered dealer who carried on business in the Republic, whether for profit or otherwise, in respect of such taxable goods or such taxable services as are manufactured, produced, or, as the case may be, provided by him in the course of such business;
- (b) any person who imports taxable goods into the Republic, in respect of such goods: provided that in the case of motor vehicles assembled in the Republic, tax shall be paid by the person who offers the same for sale to the public."

It is evident from the foregoing that the local sales tax is payable by the registered industries which are engaged in the production, manufacture or provision of such taxable goods or

services only within the Republic of Zambia. It is also worthy noting that this tax has been imposed on registered dealers whether or not the business is carried on for profit.

The same policy on domestic sales tax has also imposed the payment of import sales tax by any person who imports dutiable goods into Zambia. It has therefore become evident that there are two types of sales tax administered by the Zambia Customs and Excise Department, namely, import and local sales tax. Let it also be made clear that even if local sales tax is paid by the person who produces the goods or offers the services, the procedure for payments by the motor vehicle manufacturing industry is different.

In the case of motor vehicles assembled in Zambia, the procedure for payment of sales tax changed because the sales tax is not paid by the manufacturer (e.g. Livingstone Motor Assemblers), but by the person who offers the same for sale to the public. Taking the example of Livingstone Motor Assembly plant, it follows that this plant assembles the vehicles and there after delivers the vehicles to a firm which directly sells the vehicles to the members of the public. In this regard therefore, these are the firms which pay sales tax to the Government, and not Livingstone Motor Assemblers. However, even if these firms pay sales tax to the Government, they recover this tax from their customers who buy vehicles at prices inclusive of sales tax.

3.2 REGISTRATION OF SALES TAX DEALERS

It is Government policy that sales tax dealers who produce goods or offer services of a specified taxable quantum should be registered. In the current sales tax system, registration of dealers is clearly spelt out in the 1975 Sales Tax Act. Those who qualify for registration are registered with the Department of Customs and Excise using prescribed forms. The significance of this registration is that of control purposes.

Once those industries dealing in sales taxable goods are registered, it becomes easy for the Government to monitor the activities of the same dealers. These firms are only registered if they are able to provide documentary evidence that they produce or provide taxable services of a specified taxable value per year. This taxable value can be reviewed by the Minister of Finance at any time taking into account the rate of inflation in the country. For example, as of 1989, the call has been that:-

"every manufacturer and every person providing services and in the case of motor vehicles assembled in the Republic every person who offers the same for sale to the public who, in the course of his business as such, has sold taxable goods or as the case may be, provided services having a taxable value of not less than fifty thousand kwacha in the preceeding financial year, shall apply in the prescribed manner to the proper officer."2

It has also been provided that those manufacturers who provide goods or as the case may be, provide services of a specified taxable quantum shall apply for exemption from registration. This is in accordance with the policy statement that:-

"the minister may, by statutory order, exempt, subject to such conditions as he may deem fit to impose any person or class of persons from the provisions... of section seven provided that an exemption granted under this section may be withdrawn by the Minister at any time."3

After a sales tax dealer is registered, a registration certificate is issued to him for display in his premises for the members of the public to see it and know that he is authorised to collect sales tax from the public on behalf of the Government. For those dealers who do not meet the required taxable quantum for registration, they are given exemption certificates.

However, the Minister of Finance may cause a dealer of sales taxable goods to be registered without regard to the taxable quantum.

It is therefore important to note that two aspects need to be remembered in the collection of sales tax by registered dealers and these are as follows; no sales tax shall be collected on goods that are not taxable even when the dealer is registered because he is registered for those goods that are taxable, and secondly, no sales tax shall be collected by any person who is not a registered dealer even when the goods he is producing or the services he is offering, are taxable.

The registration in this new system is a unique feature because the determination of taxable values for registration never existed in the 1973 era. Two elements are deduced from registration; firstly, it is that the Government does not waste resources on small firms to generate little revenue and secondly, small businesses are allowed to operate without collecting sales tax from the public. This is important because the price of the taxable commodity will not be as high as when sales tax is included in the price. In this way, small firms find it easy to sell their goods. On the other hand, the Government collects substantial amounts of sales tax from established registered sales tax dealers.

In practical terms, the registration exercise seems to be going on well though there are some limitations. Some of the dealers of sales taxable goods are situated in remote places and locating them is difficult especially with the problem of lack of enough transport. Custom houses are not located in every town of Zambia, but in a few towns and cities. Because of this, unless enough transport is available, the fulfillment of the registration exercise will remain half attended to.

The question of reliability of records and returns needs to be addressed. In the first instance, it is important to note that registered dealers keep production books, summary

sheets, sales invoices, in short books of account and the information that appears on the sales tax return is actually extracted from the records mentioned above. The government has allowed a system of self assessment on the part of registered dealers and sales tax officers simply verify the correctness of declarations. Because of the system of self assessment which is in place, it is difficult to guarantee the reliability of the dealers records and the subsequent information on returns which is derived from suspect records.

The problem of double invoicing is a night-mare to sales tax officers. It is very difficult to discover such an activity especially where the dealer destroys the second set of invoices to avoid being caught. However, in order to combat this mal-practice, the Government uses the surveillance method. This is a method of following the suspect until the scandal is brought to light. This system is not very effective because the Department of Customs and Excise lacks trained personnel in surveillance. Transport is not readily available, lack of money to purchase fuel to carry out the exercise throughout the Republic would retard progress.

Having looked at the control mechanisms, it is vital to evaluate them to ascertain their reliability. The first issue is the distress system. In reality, the levying of distress is not always done. To begin with, this system is cumbersome to operate because while the dealer has defaulted, the sales tax officer is still required to prepare a warrant of distress which cannot be acted upon until the dealer has accepted liability by signing the returns. This seems to me that this system is weak as the dealer is not forced to sign the returns as a way of accepting liabilities. Further, once the dealer has accepted the liabilities, he is still given ten days in which to pay. This is another set back on the part of the system because during the ten days period, the dealer can sell the goods under distress and claim that they have been stolen and thereby leaving the

Government at a disadvantage. Because of the length of time needed to execute the distress, a dealer may even sell the goods before a warrant of distress is served on him. Due to the complications involved in levying distress, the system is seldom used, and so, it is not an effective tool of control.

The bond system is yet another weak aspect of the control mechanisms. The dealer's bankers act as a surity by accepting to pay to customs a certain amount of money in case of default. Due to inflation, what happens in reality is that even if the Government had to call upon the bond, the amount guaranteed will not always be enough to cover the debt because due to passage of time, the money will have lost its value. As a result of this, bonds are most often reviewed to determine the prospects of raising the amounts, a procedure that takes long. The other set back is that, not all dealers are bonded. Because of liquidity problems some dealers cannot afford to be bonded but still continue collecting salestax on behalf of the Government. The intention is to have every registered dealer bonded, but in reality, this has not been possible, thereby rendering the bond system as a control mechanism ineffective.

Inspections have been identified as a tool of control. When inspections are carried out, results in terms of revenue collections are positive. However, because of the financial constraints involved in sending out officers for inspections, it is not possible to conduct such an exercise on regular basis. Despite the constraints in carrying out inspections, this tool, as at present, has remained the best way of discovering anomalies in industries and through inspections, the delivery of up-to-date information to dealers is fulfilled. The problems that are associated with the inspection exercise are multi-dimensional. Inspectors are not given enough subsistence allowance to stay in decent hotels and transport is always a problem. This leads to low morale on the part of inspectors and certainly nothing much can be expected out of a person whose morale is at the lowest ebb.

3.3 TAXABLE VALUE

The taxable value of a sales taxable commodity that is manufactured in Zambia and is sold to any person who is independent to the manufacturer as well as the seller is:-

"the factory cost plus twenty five percentum of such cost or such percentage as may be prescribed in relation to any class of goods, or the selling price, if any, if that price is grater than the amount referred to earlier."4

In order to illustrate the above administrative procedure, an example is worthy using. If we have a manufacturer who has produced one hundred dresses at a factory cost of one thousand kwacha, and then he sells these dresses at eleven kwacha each while the condition of the sale is that there is no relationship between the seller and buyer. So therefore, the choice of the taxable value is among the following values:

$$\begin{aligned} \text{a) } 1000 \times 25 \\ &= \text{K250.00} \\ &100 \end{aligned}$$

Therefore, the factory cost which is K1,000-00, plus twenty five per centum of K1,000-00 which is K250-00 will equal to the taxable value of:-

$$\text{K1,000-00} + \text{K250-00} = \underline{\text{K1,250-00}}$$

or b) The selling price which is a hundred dresses multiplied by K11-00 which is the selling price for each dress; thus

$$100 \times 11 = \underline{\text{K1,100-00}}$$

When we refer back to the definition of the taxable value above, we are told the taxalbe value should be the greater of either of the two values above (K1,250-00 or K1,100-00). In this example that we have used, the taxable value is K1,250-00.

However, in calculating the price of any goods for the purpose of fulfilling the above requirement where necessary, there shall be included any amount charged in respect of:-

- a) "any wrapper, package, box, bottle or other container in which the goods concerned are supplied;
- b) any other goods contained in or attached to such wrapper, package, box, bottle or other container; and
- c) any amount that the purchaser is liable to pay to the vendor by reason of or in respect of the sale in addition to the amount charged as price (whether payable at the same time or some other time) including any amount charged for, or to make provision for advertising, financing servicing, warranty, commission, in excess of five per centum delivery charges, erection or any other matter."5

Contrary to the above, the procedure for calculating the taxable value on transactions that are characterised by a relationship in the sale, varies. In such a case, if there is a relationship affecting the price of the sale, then, the taxable value is the price at which such goods would have been sold to a person independent of the seller.

The policy requirement as regards the above is that the taxable value shall be:-

"in the case of goods manufactured in the Republic and sold in any manner by a registered dealer, the price at which such goods would have been sold in the ordinary course of business to a person independent of the registered manufacturer and, the price shall be decided by the Commissioner in accordance with such regulations as may from time to time be made."6

Apart from taxing the goods, the Zambian Government has also introduced sales tax on locally provided services. Examples of services that are taxable are, hotel and restaurant services, auctioneers services, services provided by customs clearing and forwarding agents, etc. The taxable value for the services provided by the auctioneers, is the gross commission paid to auctioneers after conducting a sale.

The taxable value for services excluding auctioneers services mentioned above, is the value or price for which such services are provided and where applicable including the cost of any services incidental thereto e.g. service charge in hotel and restaurant services. Service charge is the amount that a customer who is booked in a hotel or rest house pays for having his meals and drinks in his room, commonly known as room service. This charge is taxable. However, excisable goods like "mosi beer" provided to the customers in the room do not form part of the taxable value for hotel accommodation and room service even when the customer has paid service charge to the hotel management. This is chiefly because tax in the form of excise duty has already been paid on that commodity when it was manufactured. So, to avoid double taxation on the same commodity service charge on the item upon which excise duty has already been paid, does not form part of the taxable value on hotel services. This issue of the taxable value on hotel accommodation and service charge needs to be illustrated with an example for easy comprehension.

Here is an example;- Mr. 'X' stays in 'Y' hotel for 'P' days and when he checks out, the bill is as shown below. In this example, let us suppose that mosi beer is subject to excise duty and wine is not subject to the duty mentioned above. The charges are indicated as follows:-

Accommodation	K400-00
Room Service: Meals	K200-00
Mosi beer (30 bottles)	K 30-00
Wine (4 bottles)	K 20-00
Service charge 10%	K 25-00

	K675-00

To get the taxable value for the service charge (room service), we add K200-00 for meals plus K20-00 for wine because, according to this example, wine is not excisable. So, the taxable value for the service charge is thus, K200-00 + K20-00 = K220-00 service charge at 10% of K220-00 is K22-00. Hence therefore, the total taxable value for the above transaction is the addition of the values for;

Accommodation	K400-00
Meals	K200-00
Wine (4 bottles)	K 20-00
10% Service charge	K 22-00

Taxable Value of transaction	K642-00

To get sales tax at 10% of K642-00, it will be:

$$\begin{aligned}
 &642 \times 10 \\
 &\quad = 64.20 \\
 &\quad 100 \\
 &\text{Sales tax} = \underline{\text{K64-00}}
 \end{aligned}$$

3.4 REBATES, REFUNDS AND REMISSIONS

Under the suspension and rebate of tax, the Minister of Finance may:-

- a) "Suspend or provide for the suspension of the whole or any part of tax on any taxable goods or services.

b) Grant or provide for the grant of a drawback, rebate, refund or remission of the whole or any part of the tax on any taxable goods or services, in such circumstances, and subject to such conditions and to such extent as may be provided by, or determined under such regulations."7

What then does suspension of tax mean? What is meant by this terminology is that, if for instance, sales tax on a commodity is at 20%, the Minister of Finance may suspend the tax to, say, 10% or to free. The suspension of tax therefore means to waive away part of or the whole tax which was originally supposed to have been payable.

The other terminology which requires explanation is; 'rebate of tax'. This simply refers to the waiving away of part of the whole tax payable subject to the fulfillment of certain conditions by the person to whom the rebate is granted. A point to note concerning the rebate system is that the tax becomes due if the person to whom the rebate was granted fails to comply with the conditions of the rebate.

Refund of tax: Any amount of tax paid to the government in error or paid in by any person who is exempted from paying such tax will have his money refunded provided he claims it within the specified period. General remission of tax; This is the waiving away of the tax payable on the goods which for instance, have been destroyed by accident before tax is paid and that the Controller has verified that every care was taken to prevent the accident. Because there are no conditions attached to this case, the tax that was payable and has been remitted will never be paid.

General drawback of tax: This is effected on goods which are intended to manufacture taxable goods to be sold by a registered dealer. The administrative requirement is that:-

"Subject to such conditions as may be prescribed, a drawback of tax paid shall be granted on any

specified goods which are to be used in, wrought into or attached to taxable goods for sale by a registered dealer."8

However, the above drawback of tax is not applicable to a registered dealer engaged in the provision of services.

It is vital to explain how this general drawback is administered. What it simply means is that the Customs duty and import sales tax originally paid on the imported component parts which are to be used in the manufacture of taxable goods and sold by a registered dealer is subject to a sort of a refund known as a drawback of tax. This helps to avoid double taxation on the same material which would force the price of the taxable finished article up. Note also that the drawback is not paid directly as cash to the person claiming the drawback, but it is treated as a credit to the government and the amount being claimed is subtracted from the amount which is supposed to be paid on the taxable commodity during the presentation of the next bill of entry.

The Commissioner ensures that the materials to be used in the manufacture of taxable goods have a proper place for storage which is under proper security. The manner of the conveyance of the materials to the place of storage including the supervision of their admission into the place of storage and their removal form part of the requirements to be fulfilled before a drawback can be effected.

The Department may take a sample of the materials to be used in the manufacturing process and the manufacturing process carried on from the materials is under the supervision and control of the Customs Department.

The arrival and storage of the component parts referred above is effected as follows:

MOVEMENT AND STORAGE OF COMPONENT PARTS FROM ABROAD

Foreign country	-----	Zambia
		Customs control
		Clearance

		Materials department/stores
Operations within a registered		
sales tax dealer		Production or assembly
		Quality control
		Despatch

On arrival of component parts to be used in the production of sales taxable goods, supported by legal documents like airway bill, a customs official witnesses off-loading of the items. It is the customs official who opens the seals and helps in the counting of the number of cases that have arrived, hence a spot check or control. This is done by comparing what is written on, say, the airway bill with the actual items received. These imported components to be used for manufacture are stored in what is called a rebate store.

Through the knowledge of the above administrative requirement, it is easy to assess the drawback being claimed because these components are monitored by the Customs Department right from importation.

Within sales tax administration, there is also an element of what is known as the export drawback. In this type of a system, a drawback of duty is offered on finished products whose imported component parts are intended for the manufacture of finished articles for export. The requirement is that any:-

"manufacturer who intends to claim drawback under the provisions of this regulation shall, when entering materials imported or taken out of bond for the purpose of manufacture in terms of this regulation,

make a note on the face of the relative bill of entry to the effect that the materials or part of them are intended for manufacture and export under drawback."9

What happens when adhering to the above administrative requirement is that when the materials are imported by a registered manufacturer he indicates on the face of the bill of entry that these imported materials are solely meant to manufacture goods which will not be consumed in Zambia but are intended for the export market. This endorsement helps an officer of customs and excise to check the exported goods by making sure that the goods that are entered for export have been manufactured from the materials upon which drawback has been claimed. Evidence of the above is that:-

"before he gives authority for export, the officer shall satisfy himself that the material in respect of which drawback is claimed is in fact the material which has been consumed in the manufacture of the goods and, having so satisfied himself, he shall cause customs seals to be placed upon the packages in which the goods have been packed for export."10

Remission of tax on export is also one of the many elements prevalent within sales tax administration. The provision as regards the remission of tax on export in the 1975 sales tax administration maintains that:-

"a remission of tax shall be granted in respect of goods exported by a registered dealer within one year following the date on which they were manufactured. An exporter of taxable goods shall tender to a proper officer at the place from which the goods are to be despatched, an application for a remission of tax in such form as the commissioner may determine together with:-

- a) a copy of the invoice showing the sale of goods to a purchaser outside the Republic.

- b) a copy of the carriers consignment note showing direct and unbroken transit to the purchase outside the Republic; and
- c) an acquitted certificate of the application."11

The above is a control aspect under which a remission of tax on export should undergo. For example, the consigner is under obligation to produce a copy of the invoice of the sale to a purchase outside Zambia as proof that the goods will truly be consumed outside the Republic of Zambia. Secondly, the carriers consignment note should indicate an unbroken transit of the goods to the purchaser outside Zambia. What this means is that the goods should not be off-loaded at any point in Zambia but should be transported directly to the purchaser outside Zambia.

The other requirement of the policy as regards the remission of tax on export, is that the form upon which application for a remission is effected, should be signed by the purchaser and only after the above conditions have been fulfilled will an officer submit the application form to the Controller of Customs and Excise to effect a remission. The advantage of such a transaction is that foreign exchange will come to Zambia.

In addition to the above, a manufacturer, before he is given a remission of tax, he is required to complete a specified export customs form which must be acquitted in the space provided by the consignee at the destination of the goods. The Customs official of the receiving customs administration also signs on the space provided indicating that the goods actually reached the destination safely. An alternative to the above is that the exporter is expected to obtain a bill of entry for home consumption at destination of the same goods and quantity being exported from Zambia and thereafter produce to customs officials in Zambia this bill of entry for home consumption. It is only after the above administrative requirements have been fulfilled can a remission of sales tax to an exporter be granted.

A remission of sales tax on packaging for exports of non taxable goods are facilitated firstly through tendering an application to the proper officer for the establishment of a bonded store or a warehouse. The purpose of establishing a bonded warehouse is to store tax free packages procured from a registered dealer. The transaction between the exporter and the registered dealer who is the manufacturer is conducted on a specified form. Thereafter, the registered dealer claims a drawback of tax on the taxable goods which are removed from his premises to the exporter's bonded store/warehouse against the processed specified form. The exporter, then, is in turn obliged to prove to the proper officer that all the tax-free packaging matter have actually been used in the exportation of goods.

Within sales tax administration, rebates to the motor vehicle manufacturing industry have been dealt with specifically. According to the requirement on the administration of this rebate:-

"The component parts and materials specified in that part of the third schedule relating to the motor vehicle manufacturing industry shall be admitted subject to rebate if-

- i) a complete specification of each model which the manufacturer proposes to manufacture; and
- ii) a complete list of:
 - A. Such component parts and materials which are to be imported and;
 - B. The component parts and materials originating in Zambia; which are to be used in the manufacture of each model has been approved by the controller."

As is evident from the above, the administration of a rebate to the motor-vehicle manufacturing industry is subject to some conditions which have to be fulfilled by the manufacturer. This

is so because if the component parts to be used in the manufacture of the motor vehicle are not known by the Customs and Excise Department the manufacturer would manipulate the situation by importing component parts which will not be used in the manufacture of the specified model and fraudulently claim a rebate on the same. So, to counter this foreseen anomaly, component parts to be used in manufacture should be made known to the Controller of Customs and Excise. Similarly, the process of manufacture should be approved by the controller so that the Customs Department keeps a close look at the quantities produced as compared to the components imported.

It is also important to note that the component parts and materials specified in the afforesaid schedule as related to the motor vehicle manufacturing industry cannot be admitted under rebate unless:-

- a) each consignment of such component parts and materials on importation in Zambia is packed so as to contain the exact quantities of such component parts and materials which are required, with the addition thereto of component parts and materials originating in Zambia, to manufacture the models:-
 - i) the complete specifications of which have been furnished to the controller in terms of subregulation (1).
 - ii) which are referred to in the invoice relating to that consignment; and
- b) such component parts and materials are imported in accordance with the provisions of the fourth schedule."13

The fourth schedule that is being referred to above is about the provisions relating to the form in which component parts and materials are to be imported.

Before the discussion on rebates and remissions is closed, it is important to put the reader in a more clear position as to what is being meant by "part" for our purpose,

1) "part":-

"means an individual component shaped, fashioned or otherwise manufactured from one piece of metal or other material only and not joined or connected in any way to another component or material; sub-assembly means a component consisting of any two or more parts joined together by any means 2) except where otherwise specified, each individual part or sub-assembly provided for in the regulations shall be imported unattached to other parts or sub-assemblies."14

However, rubber tyres and tubes are excluded from being part of "component parts and materials. This means that these items cannot be admitted under rebate because they are regarded as separate entities. Evidence has it that:-

"Component parts and materials shall not include rubber tyres and tubes of such sizes as may from time to time be specified by the Minister."15

It is evident from the above observation that a drawback is effected to some specified items and not to all goods, meaning that the benefit of a drawback is enjoyable only to the extent that the manufacturer imports such components as are necessary for the process of manufacture.

3.5 CATEGORIES OF GOODS UPON WHICH SALES TAX IS COLLECTED

Liability to sales tax is on a specified selected goods and this selection falls into three broad categories excluding import sales tax. The first of those categories of goods where sales tax is imposed, is the type of goods and services manufactured and sold within Zambia by a registered dealer.

Import sales tax, which is not our concern, is imposed on dutiable goods when the same are imported into Zambia by any person.

The local sales tax is again imposed on goods which are acquired by a registered dealer to be used in the manufacture of taxable goods, though sales tax may be rebated. The last category upon which sales tax is levied is on the services provided by a registered dealer as specified in the third schedule.

The above specifications are stated in the policy that:-

"There shall be charged, levied, collected and paid a tax to be known as sales tax, in respect of goods and services specified in the first, second and third schedules when they are:-

- a) manufactured and sold or otherwise disposed of in the Republic by a registered dealer or;
- b) acquired by a registered dealer in accordance with the regulations;
 - i) used by him otherwise than in the manufacture of taxable goods; or
 - ii) disposed of by him otherwise than by sale; or
- d) in the case of services specified in the third schedule rendered, and such tax shall be computed by reference to the taxable value and unit of such goods or services, as the case may be at the rates of tax specified in the said schedules respectively."16

3.6 CONTROLS

In order to effect control on the sales tax registered dealers, ways and means of doing this have been devised. A registered sales tax dealer who is liable to pay the tax and has defaulted in paying the required amount of tax, has to be made to pay in some way or another.

A question was posed to find out what control mechanisms are used and the responses from twenty five interviewees varied amongst the following answers:-

Table 3.1: Types of control mechanisms

Number of responses	Percentage	Type of Control Mechanism
15	60	Policy-related Control Mechanisms
6	24	Custom-House-Control Procedures
4	16	Manufacturers Records
25	100	

Policy related control mechanisms have been operationalised to refer to:

- a) Levying distress on the defaulter.
- b) bond system.
- c) Invoices, records and returns.

Let us begin by addressing the issue of policy related control mechanisms. Under this general factor, falls the element of distress. As mentioned elsewhere, defaulters have to be made to pay and one of the ways is to levy distress upon the goods of such a dealer under warrant from the commissioner of sales tax.

However, before distress is levied a defaulting dealer should have admitted the tax liability by signing the returns

upon which the amount of tax to be paid is shown. A defaulter is given ten days to pay the tax after the date of the levying of the distress and if he fails to pay within ten days then, his goods are sold by public auction and the proceeds realised from the sale are used to pay the tax and any other costs that may be related to the levying of the distress.

The other element of control is, 'security'. Security is in monetary terms. It is the amount of money paid to the government by a registered dealer as a bond in case of a default. This is the last alternative because once a bond which acted as security is called upon, then this means that the dealer cannot operate because he has no security.

Another element of control is the issue of invoices, records and returns. Sales tax dealers are under obligation to furnish every purchaser who purchases a commodity from the registered dealer, an invoice describing the transaction and sales tax is stated separately from the price of the commodity. This therefore calls for proper maintenance of the books of account. The above finds evidence when it has been stated that:-

"every registered dealer who sells any taxable goods or provides services shall furnish the purchaser with an invoice in respect of the transaction and shall state thereon the amount of tax payable if any, separately from the price for which the goods are sold."17

The above administrative elements are subject to two factors and they are as follows:-

- a) No invoice showing an amount which purports to be tax shall be issued on the sale of any goods which are not taxable goods; or
- b) by a person who is not a registered dealer."18

Apart from the obligation to maintain books of account registered sales tax dealers are under obligation to keep records and are to be preserved until written permission is obtained from

the commissioner to destroy such records. These records should be made available to any proper officer on demand to inspect the same. The full substance of this, is that:-

- "1) every registered dealer shall, in accordance with regulations made... keep full and true records written up to date of all transactions which may affect his tax liability.
- 2) The records required to be kept in accordance with this requirement shall be preserved until written permission is obtained from the commissioner to destroy such records.
- 3) every person required to keep records shall at all reasonable times make such records available to any proper officer on demand therefor and shall give such officer every facility necessary to inspect the same."

It is worthy noting the usage of the term "reasonable times" above. It emphasises making the records available to a proper officer or any other officer at all "reasonable times". However, the term "reasonable times" is ambiguous because what may be termed "reasonable time" for making the records available for inspection by the sales tax officers may not be "reasonable" to the dealer.

Within sales tax administration, there is a specified way of remitting the money to the government and this is done through the use of returns which are submitted not later than the twenty-first day of every month. The requirement is that:-

"every registered dealer shall, not later than the twenty-first day of each month, submit to the proper officer a return in the prescribed form:-

- a) showing particulars of the total of the taxable value of any taxable goods or services sold by him or as the case may be provided during the month immediately preceding that in which the return is made:-

- b) containing such other matters as may be prescribed;
- c) showing a nil return in any case where no taxable goods are sold in the month to which the return relates."20

Within the same system of 1975, the commissioner of sales tax has been empowered to estimate the amount of tax that has been under-paid by the sales tax dealer due to his failure to keep proper books of account. In this regard, it is maintained that:-

"where, in the opinion of the commissioner, any person has failed to pay any of the tax which has become payable by him under the sales tax Act by reason of:-

- a) his failure to keep proper books of account, records or documents required under the Act, or the incorrectness or inadequacy of such books of account, records or documents; or
- b) his failure to make any return required under the Sales Tax Act or delay in making any such return or the incorrectness or inadequacy of any such return; the commissioner may, on such evidence as may be available to him, estimate the amount of tax owing and such amount of tax shall be due and payable forthwith by the person liable to pay the tax."21

The registered sales tax dealers that are about to leave the Republic of Zambia are also taken care of under the 1975 sales tax policy. In this respect, the commissioner has been empowered to cause the dealer who is about to leave the country to pay such tax even before the stipulated date of submitting returns. This requirement finds evidence as it is held that:-

"if the commissioner has reason to believe that a registered dealer is about to leave the Republic before paying any tax to which he has become

liable, the commissioner may order that such tax shall be payable on such earlier date as he may determine."22

The Commissioner of sales tax has also been empowered to collect tax from a person owing money to a registered dealer. This is also of fundamental importance to the new system since, it never existed in the old one. This requirement has been echoed in the policy as it has been stated that:-

"where any tax is due and payable by a registered dealer, the commissioner may, by notice in writing require:-

- a) any person who is indebted to such dealer; or
- b) any person who holds or may subsequently hold money on account of such dealer; or
- c) any person who holds or may subsequently hold money on account of some other reason for payment to such dealer; or
- d) any person having authority from some other person to pay money to such dealer; to pay to the commissioner such money or so much thereof as is sufficient to the tax so due and payable."23

Let us now focus our attention on the Custom House procedures as a mechanism of control. This control consideration is related to rebated materials stored by registered dealers. The aim of this control mechanism is to ensure that all types of the rebated material which are received by the dealer are solely used for the purposes for which the rebate was granted. Through this mechanism, it is made sure that the duty is brought to account on any disposals that are made contrary to the sales tax regulations. The Custom House procedures which are indicated below are carried out by Customs officials and are standard to all industries.

The first control mechanism on rebated material is that the Customs officials make sure that correct details as regards the nature of the rebate are shown e.g. "clothing manufacturing".

This is important because by knowing the type of the rebate which is being enjoyed by the manufacturer the Customs officials are able to detect any false materials kept under the auspices of being 'rebated materials' when they are not. Through this mechanism, only the materials that are allowed to be kept in the rebate stores enter the manufacturing process tax free.

In order for the manufacturer to enjoy the materials under rebate in that industry, he has to be registered. The lists of approved manufacturers are issued as circulars from time to time. Registration of manufacturers is of fundamental importance because through this way, Customs officials are able to establish which manufacturer does not qualify to enjoy rebated materials.

In addition to the above, the manufacturer should sign the certificate pertaining to the rebate and the certificate should be in the correct form. Agents' signatures to certificates may only be accepted if the agent is so authorised under power of attorney subscribed by the manufacturer. The collector, who is in charge of the port will have advised officers when such signatures are acceptable:-

The other control mechanism exercised in the Custom House is that Customs officials ensure that the goods which are cleared on relative bills of entry are actually subject to rebate in terms of the provisions contained in the regulations under the industry concerned. This is important because only goods that are allowed to be cleared under rebate should be entered on bills of entry for clearance under this provision.

Inspections are also used to control the industries. Manufacturers tend to be efficient when they know that they are always subjected to regular checks by Customs officials. Inspections also become easier to conduct if they are carried out regularly than if this is done after years. Further, errors are easily picked out and rectified before it becomes too late. Through inspections, amendments to the law can quickly reach the

manufacturers for compliance. Disposals of waste are supervised by officers because if this is not done, the same could be sold to the members of the public who they are not supposed to. In the final analysis, revenue evasion is reduced through the use of the control mechanisms.

Manufacturers records are yet another control device. Manufacturers records are made simple so that officers on inspections can easily follow what is on record. The information on the accounts registers has to be made adequate so as not to leave room for doubt. In this way manufacturers accounts tie well with the rebate recordings. In addition to these, the receipt storage and withdrawal of materials have to be clearly shown so as to control pilferage.

The last aspect of control under the manufacturers records is, 'products rating', e.g. quantity per unit of production. In order to comprehend this control aspect, an example is necessary. Let us use the example of a factory which manufactures safes. Model 'A' and 'B' are to be manufactured. The example is represented by a table below:-

Table 3.2 Products rating

<u>QUANTITY PER UNIT OF PRODUCTION</u>	
SAFE MODEL A	SAFE MODEL B
-----	-----
Lock Mounts 1	1
-----	-----
Handles 1	1
-----	-----
Handle Mounts 1	1
-----	-----
Hinges 2	4
-----	-----

In the above example if a factory made 20 model A safes, it will have used 20 lock mounts, handles, handle mounts and 40 hinges. On the other hand, if this firm made 20 model B safes, it will have used 20 lock mounts, handles, handle mounts and 80 hinges.

Through the use of this control device, it is easy to determine how many components have been used to produce a certain product and pilferage is controlled. However, this is not always easy to apply in all cases especially in the clothing manufacturing industry. In this type of industry, we find that there are pieces of cloth which are cut up and thereby making products rating being done on estimated basis. This makes control difficult.

FOOTNOTES

1. Zambia Sales Tax Act, Government Printer, Lusaka, 1975 p.8
2. Ibid P.10
3. Ibid P.10
4. Ibid P.9
5. Ibid P. 9-10.
6. Ibid P. 9.
7. Ibid P.14.
8. Ibid P.15
9. Zambia Customs and Excise Act, Government Printer, Lusaka 1955 P.474.
10. Ibid P.474
11. Zambia Sales Tax Act, op. cit P.30.
12. Zambia Customs and Excise Act, op. cit p. 478.
13. Ibid, P. 479.
14. Ibid, P. 492.
15. Ibid, P. 487.
16. Zambia Sales Tax Act, op. cit P.8.
17. Ibid, P. 11
18. Ibid,P.11.
19. Ibid, P. 11.
20. Ibid,P. 12
21. Ibid, P. 12.
22. Ibid, P. 13
23. Ibid, P.13

CHAPTER FOUR

SALES TAX POLICY AND SOCIO-ECONOMIC DEVELOPMENT

In this Chapter, we analyse the data that is presented in Chapters two and three. This is organised in four sections. The first part looks at the sales tax policy and how this relates to industrial development. This is followed by an analysis on the policy in question and resource allocation while the utilisation of the incentive system by industries, forms the third part. The last part looks at the problems in sales tax administration.

4.1 SALES TAX POLICY AND INDUSTRIAL DEVELOPMENT

Before a close look at the sales tax tariff structure, as one of the elements of the policy to industrial growth and development is taken, it is important to note that the whole range of goods and their percentages attached as appendix (D), acts only as an illustration of my arguments as regards Government sales tax policy towards industrial development. The percentage rates can change at any time depending on the rate of inflation but still the general trend of the policy towards industrial growth will be reflected in the sales tax tariff structure.

4.1.1 SALES TAX TARIFF - POLICY IMPLICATIONS

When one refers to the attached sales tax tariff structure (shown as appendix 2), it is found that some goods are taxable at low rates whereas others are taxable at high rates. This is not accidental but an intended move by the Zambian Government to spread the tax burden fairly and this is being reflected in this element of the policy. An analysis follows below.

It is a deliberate Government sales tax policy to levy low tax rates of commodities which the Government regards as

essential to the people. This is so because the Government realises the fact that levying a high tax rate on such commodities would be to spread the tax burden on everybody including those who may not be able to pay at prices inclusive of sales tax. For example, item (10.00), on appendix (2), being products of dental hygiene such as detritrices, mouth washes, oral perfumes - denture cleaners and denture fixative pastes and powders are free of tax. What this means is that the sales tax policy is in line with the healthy policy which tries to ensure that the health of the people is upgraded through the provision of medical services.

In line with the above therefore, the sales tax policy has exempted the products of dental hygiene from tax. It seems to the researcher that even if the major purpose of the change over from the old to the new type of sales tax administration was to increase revenue collection, the policy is not only biased towards revenue collection because the distribution of the tax burden is not the same as that of the old system.

The other meaning of the above tax burden is that the industries producing the above tax free hygienic products will grow since their products would be affordable as the prices will not be inclusive of sales tax. In this way industrial growth and development is encouraged by the sales tax policy.

There are other items in the sales tax tariff structure which can be used to demonstrate how the sales tax policy encourages industrial growth. For example, item (49.00) of the tariff structure states that any goods in the sales tax tariff which are produced from a formula based on or using local technology developed by a local research organisation is taxed at 5%.

What the above means is that, the government is trying to encourage the use of local technology developed by a local research organisation in the production of goods and this is manifested through the 5% rate of sales tax levied on such goods.

The government has realised that if goods produced from the use of local technology were taxed heavily, then the goods would be too expensive with sales tax included in the price of the goods. The consequence of this would be that these goods will not sell quickly on the market and this would cause stock piling. When this happens, it means that local technology will be of no benefit to Zambia. Growth would also be affected negatively because if goods cannot be sold on the market, it means that there would be no money for re-investment. Hence therefore, as a token of appreciation, the tax rate on goods produced from local technology has been pegged at 5% to promote local technological advancement.

In the 1975 sales tax administration, the distribution of tax burden rotates around the need to promote industrial growth and in determining as to whether the commodity is essential or not. Evidence to support my argument is found on item (50.00) of the sales tax tariff for motor vehicles. Under normal circumstances, the tax rate for motor vehicles would have been higher as motor vehicles would be regarded as the rich man's commodity. However, despite this, at the present moment, locally manufactured motor vehicles are taxed at 5% through 10%, 15% and 20% according to engine capacities. The 5% rate of sales tax mentioned above has been imposed on the vehicles falling within heading No.87.02.10 of the Customs tariff of which are passenger motor cars other than public service type vehicles designed for the transport of passengers with an engine capacity not exceeding 1,000 cc. While revenue collection seems to be the major aim of the sales tax policy, the problem of passenger transport has been taken into account.

The interpretation of the lowlessness of the tax rates for locally assembled motor vehicles is that the government is trying to boost industrial growth in the motor vehicle manufacturing industry. Industrial growth is boosted because when the tax rate is low, it means that the locally assembled

vehicles can compete favourably with the imported vehicles in capturing the market. In this way, the motor vehicle manufacturing industry cannot be forced out of business, but instead will grow and contribute to the overall industrial development of the country.

Item (63.00), covering edible animal or vegetable oils and fats call for 5% rate of tax. Note that oil is essential for good diet and hence the tax burden has been lowered because everybody needs oil. The significance of this percentage rate is that despite the inclusion of a five percent tax rate on the final price of the commodity, people can still afford to buy vegetable oil. The second significance is that because this product can be sold on the market, then, the industry producing this commodity cannot be forced out of business. Falling within the same analytic framework are items (64.00 and (64.10). These items also call for a 5% rate of sales tax. The commodity covered under these tariff items is soap, which is an important and essential good for hygiene.

Cement is also at five percent (item 37.00). This is a deliberate move because the government realises that housing is a problem in Zambia and so, to ease the housing problem, building material like cement is pegged at five percent rate of sales tax. Two factors are at play here, the first being that cement has been regarded as an essential commodity and secondly that the cement producing industry would be in a position to dispose of the cement at relatively lower prices inclusive of a five percent rate of sales tax as compared to if the tax rate was very high.

From an analysis of the tariff structure as one of the many elements of the policy, it is seen that those commodities that are regarded as luxuries are taxed at high percentage rates. This is so because only a few people use them and because of this, the tax burden is high so that the industries producing the same may be forced to diversify. An example of such goods are found on item 9.00 of the sales tax tariff covering perfumery, cosmetics and toilet preparations which are levied at fifty percent.

Pet foods covered under item (7.00) are taxed at thirty percent. The tax rate has gone up to that much because keeping of pets implies that a person keeping pets belongs to the well to do class and this is regarded as a luxury and the action is only prevalent among the few. The high percentage rate is also a discouragement to the industries which manufacture pet foods so that when pet foods lose market, they may turn to the manufacture of goods which are necessities to man. A majority of commodities under the second schedule are taxed at an average rate of twenty percent though a few are taxed at fifteen percent.

The third schedule of the sales tax tariff covers the section on the provision of services and not the production of goods. As mentioned elsewhere, this section is not our focus because the law requirement excludes this group from the drawback system.

The first schedule of appendix 2 is a section on import sales tax. This import sales tax is levied at a flat rate of twenty percent of the taxable value on all imported dutiable goods falling under chapters 1 to 100 of the Customs and Excise tariff except those goods upon which the rebates, remissions and suspensions are effected. The administration of import sales tax is easier because all imports are channeled into Zambia through appointed or gazetted routes which makes control relatively easier. This contrasts local sales tax administration whereby it is the Customs Department to look for dealers as they are scattered all over the country. Because of this situation, control of sales tax dealers is not easy as it needs enough resources in terms of finance, human and material.

4.1.2 REBATE STORE SYSTEM

Another element of the sales tax policy which has a bearing to industrial growth and development is the rebate store system. This is a deferred system of payment. By keeping the imported materials in a rebate store, it means that these

materials are admitted free of tax and are kept in these stores. In this way double taxation is avoided because it is not the individual component parts that will be taxed on entry but the final product assembled from these parts. This therefore is yet another important aspect embodied in the policy which encourages industrial growth. Industrial growth is encouraged in that if the component parts were subject to import duty and sales tax, then the prices of the finished product would be high and sales of the same would be less, at the expense of industrial growth. Secondly, industrial growth is encouraged through this system in that the manufacturer is given time to store his goods free of tax until such a time when he considers it necessary to use his materials. This is when he pays local sales tax on the finished article.

An example is necessary to explain the above. Let us use the radio manufacturing industry. Some of the imported component parts needed for the assembly of radios are coils/inductors, diodes, capacitors, transformers, transistors and resistors. In this case, the materials from the rebate store to the production floor are drawn in batches. For example, materials needed for the assembly of a three band radio are drawn in batches of three hundred; for a five band radio, materials are drawn in batches of two hundred and for a four band stereo, materials are drawn in batches of one hundred. A point to note is that these component parts which are drawn in batches are, at this point free of tax. It is the final product, the radio, that is going to be subject to local sales tax. This encourages industrial growth and development because the final product will not be as expensive as when the components were also taxed separately on importation and again taxed in the final product.

However, the Customs and Excise Department takes note of the various component parts which are admitted under rebate. This is important because if the department does not monitor the admission of these parts into the rebate store, the industries

would be importing these parts under rebate and therefore dispose of them in any other manner and not in the production of taxable goods. This would cause a drop in revenue collection because such dealers would have avoided tax paying at importation.

4.1.3 GENERAL DRAWBACK

As explained elsewhere, double taxation is avoided through this system. The significance of this system is that when double taxation is avoided, the buyer can afford to buy the goods from the manufacturer because the prices are not as high as they would have been if the element of double taxation was not avoided. In this way, the manufacturer is able to sell his goods and even affording to charge at a relative profit to enable him re-invest in manufacture for further growth.

Secondly, apart from the money that a manufacturer gets from selling his goods at affordable prices, the manufacturer also gets back the money he originally paid as duty and sales tax in the form of a drawback. This money further enables the manufacturer to re-invest in production thereby contributing positively to industrial growth.

4.1.4 EXPORT DRAWBACK

The sales tax policy provides that no sales tax is to be collected on goods that are not intended for home consumption. Under the system of export drawback, the customs duty and import sales tax originally paid for the goods is refunded to the dealer in the form of a drawback of tax administered as a credit against the government and is subtracted from the amount that was supposed to have been paid in the other entry for payment. Benefits that arise out of this system in the 1975 sales tax administration are three-fold. Firstly, the manufacturer can re-invest the refunded money for further industrial growth. Secondly, the dealer can easily sell his goods on the export market because the price will not be as high as when the import

duty and sales tax were not refunded to him since the sell price would be inclusive of this tax. The third benefit is that the dealer is able to earn foreign exchange because he is able to sell his goods outside Zambia. These elements of the sales tax policy encourage industrial growth as shown above.

4.1.5. REMISSION

If the goods are sold by a registered dealer in returnable containers the law allows a remission of tax to such containers. The idea behind this is that, in calculating the taxable value of a commodity for export in containers, the amount charged in respect of containers forms part of the taxable value. This is the amount that is being referred to here that, there will be a remission to this money. The significance of this, is that a registered dealer will be able to sell his goods in a container and since this container is returnable, the amount charged from this container which forms part of the taxable value will be remitted to the dealer. This, in itself, acts as an incentive to the registered dealer because he gets back his money and the container can be re-used over and over again. Secondly, this is an incentive to the dealer in that he is not going to include the remitted amount in his sale price and this implies that his sale price will be low and hence easier disposal of the goods. In this way stock-piling is reduced and industrial growth encouraged.

4.2 SALES TAX POLICY AND RESOURCE ALLOCATION

The sales tax policy has also got an influence over resource allocation. This is facilitated through government effort to provide schools, hospitals, roads and indeed many more other social services to the people. Since sales tax forms part of government revenue, it is therefore obvious that it contributes to the allocation of these resources. For example, in 1989, it was reported through the Zambia Daily Mail that:-

"the department of Customs and Excise has collected an all-time record of K1.9 billion from sales tax during the first half of 1989... and that this year's forecast of K3.2 billion would be exceeded between this month and October. This rise in tax collection which he attributed to improved operations and discipline among his officers, is ten times higher than that collected during the same period in the last two years."1

The above is an example of the sales tax collection which forms part of the national budget and thereby contributing to the overall resource allocation. The comparison in collection between the three indirect taxes from 1988 is represented by the figures below:-

Table 4.1 Actual revenue collected in million kwacha for the year 1985 - 1988

	1985	1986	1987	1988
Customs duty	139156026	40655661	597247843	562857234
Sales tax imports	157329756	414359909	770324724	828824715
Sales tax local	118481445	184307420	341864698	489201629

SOURCE: Customs Revenue Summary Sheet, 1985 - 1988

The above table shows that local sales tax has steadily increased from 1985 to 1988. However, despite this steady increase the local sales tax collections have been lower than customs duty and import sales tax for the years indicated above. The above trend of results mean that the Customs and Excise Department is more of import than local sales tax oriented. This takes us back to our problem of industrial growth.

The low level of sales tax collection mean that the sales tax policy is not only aimed at revenue generation but

takes into account the element of encouraging industrial growth and development. The results have indicated that the coverage of commodities is narrow and hence less sales tax collections as the table shows. Secondly, the results show that even to the narrow coverage of commodities that are liable to sales tax, the tariff rates are generally not too high, because if they were so, the results would have been vice versa. This therefore means that industrial growth is encouraged through the imposition of moderate tax rates so that the taxable commodities are sold out at affordable prices to ensure continuity of industrial operations.

On the other hand, import sales tax is high because the percentage tax rate is pegged at a flat rate on all dutiable imported goods. The twenty percent import sales tax flat rate in itself explains why customs duty collections are lower than import sales tax; the reason being that while import sales tax rate is a flat one on all dutiable imported goods, some commodities call for lower rates of customs duty in comparison with the twenty percent import sales tax rate.

It is also important to compare the indirect tax collections in general and the rest of the revenue structure. The table below explains the situation:-

Table 4.2 GOVERNMENT REVENUE AT CONSTANT (1980) PRICES, 1983 - 1989 (K MILLION)

	1983	1984	1985	1986	1987	1988	1989
Income Tax	274	210	214	209	195	288	284
Customs, Excise and Sales Tax	387	347	347	356	356	358	312
Mineral Revenue	39	59	58	100	78	1	1
Capital Grants	39	14	8	42	15	119	130
Other	76	66	96	91	81	65	45
TOTAL	815	696	723	798	715	831	772

Percentage of Total

Income Tax	34	30	30	26	26	34	36
Customs, Excise and Sales Tax	47	50	49	45	50	43	40
Mineral Revenue	5	8	8	13	11	1	1
Capital grants	5	2	3	5	2	14	17
Other	9	9	12	11	11	8	6
TOTAL	100	100	100	100	100	100	100

SOURCE: Perspectives on the Zambian Economy NO.2
Institute for African Studies. The University
of Zambia, March, 1989

Table 2.3 p.6.

From the foregoing it is evident that from 1983 to 1989, the percentage for the indirect taxes has always been higher in terms of revenue collection when compared with the other sources of Government revenue.

However, despite the fact that the percentage rate for the indirect tax has been higher than the other revenue sources,

there is one aspect that is noticed in the trend of collections. This is the fact that there has been fluctuations in revenue generation. The question that one asks is that, why has there not been a steady increase in the collections? How does sales tax contribute to this state of affairs? Can this be attributed to lack of working instruments in the system - both human and materials?

As mentioned elsewhere before, the local sales tax figures have always been lower than those for customs duty and import sales tax during the period between 1985 and 1988. Sales tax offences have been singled out to be constraints on the

generation of sales tax. These offences are:-

- a) "failure by any person or firm to register when he is or it is engaged in producing taxable goods or providing taxable services..."
- b) Failure by a registered dealer to furnish the commissioner with adequate security (sales tax bond)....
- c) Failure by a registered dealer to render returns to the proper officer...
- d) Failure by a registered dealer to keep full and true records...
- e) Charging, levying and collecting sales tax by any person/s who is/are not registered dealer/s.
- f) Failure by a registered dealer to pay sales tax to the proper officer inspite of rendering returns to him or failure by a registered dealer to both pay sales tax and render returns to the proper officer."2

It was observed that the above offences had become many due to the inability of some supervising officers to coach the dealers adequately or that the dealers disrespected the law. It also

seemed that both of the above parties contributed to the prevalence of the offences. This is reflected when it was said in circular number 53 of 26th September, 1985 that:

"the fact that these offences are becoming more and more prevalent would appear to indicate the inability of some supervising officers to adequately coach registered dealers of their legal requirements of a flagrant disrespect of the law by traders themselves or both."3

However, while reduction in revenue can be attributed to the above factors, I believe that there are some other features which may also have a bearing on revenue reduction. One of such features is the non-availability of foreign exchange. This will be dealt with later.

The other observation within the study of the sales tax policy is that this policy also plays a major role in economising on foreign exchange in Zambia. The question that arises is, how does this policy help in economising on foreign exchange? The answer is derived from an analysis of the sales tax tariff structure as done elsewhere.

Let us draw our example from item (49.00) of the sales tax tariff. Item (49.00) embraces any goods of the sales tax schedule which are produced from a formular based on or using the type of local technology developed by a local research organisation. According to the second schedule, those goods are taxable at five percent. The rationale behind this percentage rate is, as mentioned elsewhere, to have the taxable goods easily sold out. Because the goods are produced and easily sold out due to affordable prices despite their being inclusive of sales tax, importation of similar goods is curtailed because they are locally manufactured. Everybody will agree that in order to import goods from abroad, the importer needs foreign exchange or convertible currency. Hence therefore in trying to economise on

the much needed foreign exchange, the sales tax policy encourages local production of goods through the use of local technology based on or developed by a local research institution. This is the notion of import substitution. Note also that this local technology which is used to produce these goods which would have been imported, is also locally produced. Hence therefore, loss of foreign exchange is economised in two ways, firstly, by producing goods that would have been imported and secondly, through the use of locally based technology both of which would have been imported and thereby losing foreign exchange.

Consumer spending is yet another element that is related to the sales tax policy. The distribution of the sales tax rates means also the regulation of consumer spending. As is evident from the distribution of the tax burden, some goods call for low and some call for high rates of tax. This means that instead of buying, say, cosmetics at exorbitant prices which are inclusive of high tax rates, consumers are discouraged from buying them thereby curtailing consumer spending on non-essentials. Because consumer spending is curtailed on luxuries, people will resort to spending the saved money in meeting the basic necessities of life like food, shelter and clothing.

Consumer spending is influenced by the sales tax policy in two ways, thus, by either curtailing or encouraging consumer spending on a sales taxable commodity. The sales tax policy therefore forces consumers to make a choice on either spending their money on necessities or on luxuries. However, note should be taken that whichever choice is taken by the consumer, the sales tax policy has already catered for the type of influence to be exerted on the taxable commodity.

However, articles of apparel and clothing which are necessities of life are taxed at the rate of twenty percent. This may raise questions as to why clothing is taxed instead of it being tax-free since it is a necessity for everybody. The

first reason that comes to one's mind is that clothing is taxable because the government wants to collect enough revenue. On the other hand, it has been argued elsewhere in the literature review that it is better to tax the basic necessities of life like clothing because the rich buy more of the basic necessities than the poor. So, if these basic necessities are tax-free, it would just mean diverting the good intention of helping the poor to enabling the rich buy more of the basic necessities free of tax.

4.3 UTILISATION OF THE INCENTIVE SYSTEM BY INDUSTRIES

A sample of fifty registered sales tax dealers was chosen in order to establish the availability of the incentives as provided by the sales tax policy. The findings were as follows:-

Table 4.3 Acknowledgement to utilisation of incentives by registered sales tax dealers

	INDUSTRIES WHERE INCENTIVES APPLY	INDUSTRIES WHERE INCENTIVES DO NOT APPLY	
	A		B
Number of Industries seeing no relationship between incentives and growth	3	29	32
Number of Industries which acknowledge the existence of the relation- ship	18	0	18
	21	29	50

The above table shows two categories of sales tax dealers namely, those producing taxable goods represented by "A", and those providing taxable services represented by "B". Our focus is on group "A". Out of a total of twenty-one industries in group "A", 14.29% represents emerging sales tax dealers who have not yet secured the export market to enjoy the drawback on export as a major incentive. However, it can be focused that, once they become established, the percentage rate will further be reduced. Of the twenty-one industries in group "A", 85.71% acknowledge the importance of incentives and have actually appreciated that the policy has made available the types of incentives that are there.

Group "B" is comprised of those industries providing services and cannot be dwelt on because the policy has excluded the extension of the incentive system to this group of dealers. However, as can be seen, 100% do not see the importance of incentives because they do not use them and recognition of the importance of incentives to them is represented by 0%.

The above findings are very important because after analysing the documentary provisions of the policy, the researcher went out to the industries to actually learn from them as to how they look at the incentive system, and hence, the findings above. From these findings, we can conclude that the incentive system has actually reached the majority of the sales tax dealers as represented by our percentage rate of 85.71%.

4.4 PROBLEMS IN SALES TAX ADMINISTRATION

Sales tax in Zambia is collected at the point of first sales except for locally assembled motor vehicles. The meaning of the above is that the drawback system is only applicable to registered manufacturers and not to unregistered small individuals who are emerging businessmen. The problem here is that when a manufacturer sells, for instance, taxable materials to a wholesaler or retailer, the materials bought is inclusive of

the tax and when the wholesaler sells the same material to say, an unregistered individual tailor, the price will be even higher because the tax is also included in the price.

Still on the above, if the emergent businessman uses his initiative and manages to secure the export market outside Zambia, he will not claim a drawback of tax because the sales tax policy does not extend the drawback system to the small unregistered businessmen. Consequently, this individual businessman faces problems in the competitive export market outside Zambia because his goods will be too expensive as he tries to make up for the tax he paid. To this effect, the researcher is of the opinion that something must be done to these small unregistered dealers to encourage them. The researcher feels that it can be a good idea to extend to them a system of drawback especially when they are able to secure the export market. Small businesses need to be encouraged because even the now well established dealers started as small firms.

If the system of drawback on export is extended to unregistered emerging businessmen who manage to secure an export market, foreign exchange would be forthcoming to Zambia from many sources.

The other problem encountered, is that sales tax dealers are difficult to locate. They are difficult to locate because the sales tax section does not operate like the customs section where entry of goods into Zambia is through gazetted routes for easy capture of goods and control. On the contrary sales tax dealers are scattered all over Zambia and in order to locate and assume firm control over them, becomes difficult as this needs going out in the field in search of the dealer. This requires a coherent effort in the field service unit if control is to be exercised to the maximum ability. In this regard therefore sales tax administration should be an outdoor game.

There is yet another problem which is encountered when it comes to the registration of dealers who are engaged in the

production of more than one commodity. These commodities may or may not be taxable. The problem arises when the government wants to register such dealers because when they are asked to tell the department what type of goods they produce, they simply say that they produce non taxable goods. It takes time for the department to uncover such malpractices by dealers especially those that are located far away from the controlling collectorates. Unless sales tax administration becomes more of an outdoor game than an indoor game, government revenue will continue being lost in this way.

The above problem may arise out of ignorance on the part of dealers who may think that the sales tax to be transferred to the government will be coming from their own accounts and yet it is the consumer who bears the burden, and hence, the concept of indirect taxation. There is therefore the need to educate the dealers that they simply collect the money from the members of the public on behalf of the government and that it is not them paying the money. To this effect, the researcher feels that it is a challenge on the part of the sales tax section to embark on the program or package of educating the sales tax dealers on the requirements of the law.

The other problem is that the Department of Customs and Excise is import oriented. This is demonstrated by taking a look at controlling collectorates. For example, Livingstone collectorate controls areas like Mongu and Kaoma, Nakonde controls areas like Mpika and Isoka districts while Mbala controls areas as far as Kasama in sales tax administration.

The control of the above areas is through sales tax inspections. Efficiency is difficult to achieve in such cases because inspections are not always as it is very expensive for the government to undertake such inspections in terms of transport costs, subsistence allowance for officers undertaking the inspections and lack of transport itself. So cost-benefit analysis should be used in order to determine which is cheaper;

whether to continue with inspections or to establish many custom houses. Moreover, the system of inspection contradicts the principle of economy which calls for minimum costs in administering taxes. Even in collecting personal income tax, the government collects this tax at the centre, the Ministry of Finance by deducting straight away from the gross pay. Costs are reduced because income tax officers do not go out looking for civil servants to pay the income tax.

While the Department of Customs and Excise is faced with the above difficulties, sales tax dealers have the problems also. The first of these, is the non-availability of foreign exchange. For example, granules to make buttons are imported and buttons are an important component if a shirt has to find a market. If a manufacturer manufactures shirts minus buttons, the shirts won't be sold despite the negligibility of the value of buttons as compared to the whole material of the shirt. This lack of foreign exchange, while being retrogressive to industrial growth and development also has an adverse effect on sales tax collections. Sales tax collections will be low because shirts without buttons which are taxable, won't be sold. Similarly, zips, collar stiffeners and trousers' eye and hooks play an important role in the sale of manufactured quality garments. So, the availability of foreign exchange to purchase the small components needed in manufacture is beneficial both to the industries and the government.

The other factor which poses as a problem to the registered sales tax dealers is, "credit facilities." Most of the sales tax dealers carry out their business through a scheme of credit facilities. This is a system where industries sell their goods to buyers on a credit basis because the buyer cannot manage to raise enough money to buy the whole consignment on a cash basis. While the industry has sold the taxable goods on a credit, the government expects to get its sales tax by the 21st of the month following that in which the goods were sold whether or not the credit has been repaid.

In respect of the above problem, the sales tax dealers argue that it is difficult to experience industrial growth and because of this, they actually favour the extension of the deadline from the 21st to the end of the month. This, it is argued by the dealers that, it would give enough room for the buyers who had obtained the goods on credit to pay back what they owe and thereafter transfer the money to the Government as sales tax. Growth would be easily facilitated in this way because there would be enough room to manouver.

It will suffice to mentioned here that the problem of registration which existed during the period before 1975 has been looked into in the new system. In the 1973 era, dealers who produced taxable commodities paid sales tax to the Government though their selection was abitrary. There were no required taxable quantumms to be reached by the dealer in order for him to be eligible for registration. There was intuitive judgement on the part of sales tax officers as to who should and should not be registered. In the current system, taxable quantumms have been clearly set up to specify as to who should be registered and who should be exempted.

Various issues have been raised in this chapter. Among them is the tariff policy implications. It has been pointed out that the government has put into place different tax rates so as to spread the tax burden fairly between the rich and the less well-to-do people. It has also been noted that luxuries attract high tax rates whereas essentials attract tax at low rates. The chapter has also offered some insights as regads the relation between the tax policy and industrial growth. It is in this chapter where it has been learnt that the sales tax policy tries to encourage industrial growth in various ways. One of the ways is that those industries which produce hygienic goods are able to sell these goods cheaply since hygienic goods are tax free. Further, the policy has made it possible to encourage industrial growth by allowing that goods produced using local technology be lowly taxed at 5%. In similar manner, because of the tax element that is low, the prices of goods will be low and would sell quickly and thereby allowing re-investment.

The transport sector, housing and the health sectors have been covered by the sales tax policy. The tariff rate in all of these areas is 5% as has been analysed in the chapter. The aim of the low tax rate in the case of locally assembled passenger motor cars is to allow competition with imported cars whereas in the case of housing, cement has been taxed at 5% to reduce the high cost involved in building. Products of hygiene are tax-free and this simply shows that the Government realises that a prosperous nation should have health people.

In order to further promote industrial growth, the tax policy has put in place the rebate store system which is a deferred payment system. This has been analysed in details within the chapter. Other incentives provided to industries to encourage them grow are the export drawback and the remission systems. It has also been observed that sales tax plays a fundamental role in resource allocation since part of the revenue realised from this tax is allocated to schools hospitals and the maintenance of roads.

Lastly, the chapter has shown that the administration of sales tax has its own problems. Among the major problems observed is the problem of locating sales tax dealers. This is so because in sales tax administration, it is not like in the control of imported goods which come into Zambia only through appointed and gazzetted entry points. In the case of sales tax management, officers in sales tax section have to look for dealers. In the chapter it has been noted that unregistered businessmen do not enjoy the export drawback system, which is segregatory in its kind. Inspecting sales tax dealers on regular basis is not possible because of costs involved.

While the Customs Department has its own problems, the dealers also face liquidity problems and because of this, they argue that submission of returns to Customs should be done at the last day of the month following that in which the goods were sold or services provided.

FOOTNOTES

1. Mail Reporter, Customs Sales Tax nets Kibn, Zambia Daily Mail, Wednesday, September 6, 1989. p.1.
2. Customs and Excise Circular Number 53 of 26th September, 1985. p.1.
3. Ibid. p.1

CHAPTER FIVE

MAIN OBSERVATIONS AND RECOMMENDATIONS

From the issues in the text, it is interesting to look at the core aspects. Among the major issues of interest are: the increase in the coverage of taxable commodities and its significance to dealers, the issue of stockpiling, its significance to dealers, , economising on foreign exchange, encouraging local industrialisation, regulation of consumer spending, the issue of price stability and the interaction between the sales tax policy and income distribution.

5.1 MAIN OBSERVATIONS

The first observation is about increasing coverage of commodities in the sales tax tariff while lowering the sales tax rates. It can be a good and positive move to introduce sales tax on most if not all locally manufactured goods which are not subject to excise duty. This would entail that since the Government has got a wide coverage of goods on which to collect sales tax, it can even afford to lower the tax rates but still collecting enough revenue. The advantage of this system to an individual would be that he would be able to purchase goods at lower prices because the tax inclusive in the price of the commodity will be reduced. To the Government, despite the low rates of tax, still, the revenue to be generated would rise because tax would be collected on a wide variety of commodities.

To the registered dealers, this system would provide them with a chance to find a wide market coverage because despite the inclusion of sales tax, the prices of their commodities will still be affordable since sales tax rates will be low. This therefore means that stockpiling will be reduced as most of the goods will easily be sold out. The underlying implication is

that since stockpiling is reduced because of the affordable prices of the goods it means that the sales tax policy will, while biased towards revenue generation, encourage industrial growth in that the sales tax originally collected from high rates by the government, will now be used for reinvestment within the industry.

The other observation within the study of the sales tax policy is that this policy also plays a major role in economising on foreign exchange in Zambia. The question that arises is, how does this policy help in economising of foreign exchange? The answer is derived from an analysis of the sales tax tariff structure as done elsewhere.

Let us draw our example from item (49.00) of the sales tax tariff. Item (49.00) embraces any goods of the sales tax schedule which are produced from a formular based on or using the type of local technology developed by a local research organisation. According to the second schedule, these goods are taxable at five percent. The rationale behind this percentage rate is, as mentioned elsewhere, to have the taxable goods easily sold out. Because the goods are produced and easily sold out due to affordable prices despite their being inclusive of sales tax, importation of similar goods is curtailed because they are locally manufactured. Everybody will agree that in order to import goods from abroad, the importer needs foreign exchange or convertible currency. Hence therefore, in trying to economise on the much needed foreign exchange, the sales tax policy encourages local production of goods through the use of local technology based on or developed by a local research institution. This is the notion of import substitution. Note also that this local technology which is used to produce these goods which would have been imported, is also locally produced. Hence therefore, loss of foreign exchange is economised in two ways, firstly, by producing goods that would have been imported and secondly, through the use of locally based technology both of which would have been imported and thereby losing foreign exchange.

From the data available, the researcher would like to argue that Zambia's sales tax policy does not provide price stability to the commodities that are liable to sales tax. The researcher has taken this line of argument because the rates of sales tax as provided for under the sales tax tariff structure are subject to change under certain circumstances. For example, sales tax rates can be changed at any time as the Minister of Finance may require. This may be done during the year or at the time of the presentation of the budget to parliament. This therefore, means that the prices of commodities liable to sales tax should change each time there is a change in the sales tax rates thereby dispelling an element of fostering price stability in as far as the interaction between the sales tax policy and prices is concerned.

Price stability was going to be an ideal if the sales tax rates remained constant, but as the case is now, to talk of the sales tax policy as stabilising the prices, would be an illusion. For example, the local sales tax rate on the articles of apparel and clothing has progressed from 10% in 1973, 15% in 1975 and 20% in 1989. This meant that each time the rate of sales tax for the articles of apparel and clothing changed, the price of this commodity changed since the final price of a taxable commodity is inclusive of sales tax.

Another observation that has been drawn from the available data concerns the interaction between the sales tax policy and income distribution. Income distribution in relation to relation to sales tax is also analysed through the reference to the sales tax tariff structure.

A close look at the sales tax tariff structure, demonstrates that those goods which are not regarded by the government as necessities, attract low rates of sales tax. This means that the well to do who are able to buy luxurious items are taxed more than the less well to do who may only afford to buy the necessities of life at low tax rates. In this regard, the

well to do therefore, contribute more to the revenue generation of the government indirect tax structure. Income distribution is facilitated in that the well to do who pay more tax on luxurious items, are left with income considerably in comparable terms with that of the less well to do. Secondly, income distribution is facilitated in that the less well to do enjoy the income from the well to do through the utilisation of the social services provided by the government.

5.2 CONCLUSION

From the data that has been presented in the text, it is evident that while the two systems of managing sales tax have been guided by different policies, each system has its own problems. In the second Chapter, we have tried to analyse the procedures and problems of sales tax in relation to excise administration. This relation served as an important aspect because during that period, the sales tax was operated as an appendage of the excise system. During the 1973 era, few administrative elements were found to be relevant to sales tax matters as most of them were actually suitable for excise.

Sales tax officers used intuitive judgement in selecting dealers to be registered. This was so because there was no taxable quantum established in order to determine who qualified for registration and who did not. The registration of dealers is the major operational change that has occurred because this aspect was not clearly spelt out in the old system. It was not clearly spelt out in that no taxable quantum were set out to classify dealers in terms of qualification for registration. This has been provided for in the new system.

The old type of management did not provide incentives to industrial growth as emphasis seem to have had been in raising revenue. The system was therefore narrow, because, apart from the aforesaid set backs, the coverage of taxable commodities was narrow.

On the contrary, it has been found that the scope of the 1975 policy is wide. This has been demonstrated in chapter three where, for instance, it has been shown that the policy has provided incentives to industrial growth and development. The gap of providing incentives which lacked in the 1973 era, has therefore, been bridged in the new system.

Despite the fullness of the new policy, it has its own problems in relation to the sales tax dealers. These problems are the non extension of the drawback system to non registered businessmen who deal in sales taxable goods. This therefore, implies that industrial growth is not encouraged at the grassroot level. The other problem in the current set up is the non availability of the educational package from the Customs Department to the dealers. This, it has been argued by dealers that, the Department of Customs and Excise would prevent mistakes which result from ignorance of the law requirements if an information package is delivered to the firms concerned as soon as there is an amendment to the law.

As mentioned elsewhere, small and emerging businesses operate on credit sales. The problem that is faced with such an industry is that the Government demands remittance of sales tax by the 21st of the month following that in which the goods and services were provided. By this time, the people who had got goods on credits have not yet repaid the money as they hope to raise some money at the end of the month. Due to this factor, the sales tax dealers require that the period for remitting sales tax to the Government through the Customs Department be extended from the 21st to the end of the month.

There is also the problem of control of the sales tax dealers which are situated far away from controlling collectorates. This situation contradicts the principle of economy which favours less costs in collecting tax.

The last problem concerning sales tax dealers is the lack of foreign exchange to purchase inputs for production. This

problem indirectly affects the Government because if there is no foreign exchange to purchase inputs for the production of taxable commodities, then it means that products to be taxed will be few and consequently, sales tax collections will be low.

It is indeed true to say that while the gap of not providing incentives to industrial growth by the 1973 system has been bridged in the new administration, this current system has its own problems.

5.3 RECOMMENDATIONS

In view of the problems enumerated in the text, recommendations are hereby offered as a remedy.

The Zambian Government needs to increase the coverage of commodities liable to sales tax. If the Government does this, then it can afford to lower the sales tax tariff rates while at the same time recording high revenue collections due to an increased coverage of sales taxable commodities.

The sales tax system is an out door game, meaning that the officials in this section should spend much of their time out in the field trying to locate dealers and register them. This is important if the Customs Department is to generate high revenue from sales tax. In line with this, the Government should provide adequate tariff books, commodity index books, calculators, transport, etc. Since we have said that sales tax is an out door game, there is therefore the need to expand the sales tax section. This can be done by taking enough manpower to this section so as to carry out effective operations.

It has been shown in the text that the incentive system does not extend to unregistered sales tax dealers. To this effect, it is recommended that the Government should extend the incentive system to unregistered sales tax dealers who are emerging businessmen. This is of fundamental importance because emerging businessmen dealing in sales taxable goods and who have the initiative of securing the export market, with the use of the

incentive package, will contribute greatly in the generation of the much needed scarce foreign exchange. This would further promote industrial growth.

The other concern is the issue of the time period in which the dealers are supposed to remit the revenue to the Government through the Customs Department. The Government should therefore review the time period needed for the remittance of sales tax by the dealers to the Government. There is need to extend the time limit for remitting sales tax especially to emerging dealers who rely entirely on credit sales. While still on the same issue, it would then be fair to recommend that defaulting sales tax dealers should not be issued with the licence during the year following that in which the dealer defaulted.

The allocation of foreign exchange is yet another issue of interest. This allocation should be biased towards those dealers which import component parts to be used in the manufacture of sales taxable goods. This is very important because if the components are not available, then, no sales will be recorded and this would retard industrial growth and sales tax collection would be affected negatively because there would be no items upon which to levy sales tax.

The information system needs to be updated. There should be an educational package delivered to the sales tax dealers at the beginning of the year to facilitate coordination between the sales tax section and the dealers. Through this way, it is expected that dealers will have a chance of explaining their problems to customs and vice versa.

The last recommendation is that, the Government should adopt a cost/benefit analysis as to whether or not rely on inspections of distant located dealers as a means of control.

I suggest that the term "reasonable" be deleted in the Sales Tax Act because as it is now, the sales tax dealer can refuse to have his books of account inspected claiming that the

time of the inspection is not "reasonable" according to him. Alternatively, the law should give an operational definition of what is being meant by the term "reasonable" otherwise the term is ambiguously used because the time for the inspection which may be regarded as "reasonable" by the customs official (proper officer), may not be "reasonable" to the dealer.

Sales tax officers should be trained in surveillance so that they would be able to locate those dealers who default intentionally. This should be a good thing to do because officers would be able to come up with useful information which would lead to huge revenue collection.

I recommend that there should be specialisation in the Customs Department. Since there are three separate sections, namely, customs, excise and sales tax forming the Customs and Excise Department, I think that if officers specialised in one field much revenue could be collected because they would be having up-to-date information as regards their respective sections. Unlike at the present moment where an officer can be rotated from one section to the other without much knowledge about the new section to where he/she has been transferred. Because of the complexity of the work in the Department of Customs and Excise, I suggest that training of officers should be done on a specialised basis.

I recommend that officers on inspections should be given a special allowance. This should be a good incentive package because if this is done officers will be able to stay in decent hotels while conducting inspections and the worry of accommodation, which is a source of low morale to inspectors, would be done away with. Alternatively, the Government should be paying in advance hotel bills for accommodation and meals for inspectors and in addition give them their normal subsistence allowance. This can be a good incentive package and I believe that if this is done, inspectors would be able to raise a lot of money for the Government.

APPENDIX (A)a) GUIDING QUESTIONS TO DEALERS OF SALES TAXABLE GOODS

1. Do you apply the incentive system as provided for under the 1975 sales tax Act? If not, why?
2. Does the incentive system cover all the commodities you manufacture in this firm or is it selective as regards the coverage of commodities?
3. Do you re-invest part of all the money you save from the utilisation of incentives for industrial operations to facilitate expansion of your industry?
4. Would you say that the incentive system has got an effect on the prices of your commodities? If yes, what is the effect? If not, why not?
5. Has the number of employees in this firm reduced or increased ever since you started using the incentives?
6. Does the availability of the incentive system affect your industrial operations? If yes, how? If not, why not?
7. What benefits do you get from the utilisation of the incentives?
8. Is there a relationship between the sales tax and the sell of your goods? If yes, what is it?
9. Do you think that the government should give you some more incentives? Why?
10. Do you experience some set backs in your utilisation of incentives? If yes, which ones?
11. Would you say that expansion of your industry is due to your utilisation of incentives only?
12. Do you have any problems in sales tax operations? If yes, what are they?

b) QUESTIONS DIRECTED TO THE CUSTOMS DEPARTMENT

1. Do you experience any problems in the implementation of the sales tax policy? If yes, what are those problems?

2. What do you think is the cause of those problems?
3. Can you suggest ways of solving those problems?
4. What can you say about the distribution of the tax burden on the various commodities that are subject to sales tax?

APPENDIX (B)
FIFTH SCHEDULE
(SECTION 77A)

SALES TAX

Goods manufactured in Zambia corresponding to the Customs Tariff headings as set out in the schedule below:-

Item (1)	Description of Goods (2)	Heading No. (3)	Rate of Duty (4)	Notes (5)
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1	Biscuits	19.08	10%	
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2	Clothes	39.07.12	10%	
		39.07.13	10%	
		39.07.15	10%	
		39.07.16	10%	
		39.07.17	10%	
		39.07.19	10%	
		40.13.12	10%	
		40.13.19	10%	
		40.13.21	10%	
		40.13.29	10%	
		40.13.92	10%	
		40.13.93	10%	
		40.13.99	10%	
		42.03.11	10%	
		42.03.19	10%	
		42.03.99	10%	
		43.03.10	10%	
		43.04.10	10%	
		60.02.00	10%	
		60.03.00	10%	

Item	Description of Goods	Heading No.	Rate of Duty	Notes
(1)	(2)	(3)	(4)	(5)
		60.04.11	10%	
		60.04.19	10%	
		60.04.20	10%	
		60.04.31	10%	
		60.04.39	10%	
		60.04.41	10%	
		60.04.49	10%	
		60.04.90	10%	
		60.05.11	10%	
		60.05.19	10%	
		60.05.21	10%	
		60.05.29	10%	
		60.05.30	10%	
		60.05.41	10%	
		60.05.49	10%	
		60.05.91	10%	
		61.01.10	10%	
		61.01.20	10%	
		61.01.31	10%	
		61.01.39	10%	
		61.01.41	10%	
		61.01.44	10%	
		61.01.45	10%	
		61.01.49	10%	
		61.01.50	10%	
		61.01.60	10%	
		61.01.71	10%	
		61.01.79	10%	
		61.01.81	10%	
		61.01.89	10%	
		61.01.91	10%	
		61.01.99	10%	

Item (1)	Description of Goods (2)	Heading No. (3)	Rate of Duty (4)	Notes (5)
		61.02.10	10%	
		61.02.21	10%	
		61.02.23	10%	
		61.02.24	10%	
		61.02.26	10%	
		61.02.27	10%	
		61.02.29	10%	
		61.02.31	10%	
		61.02.41	10%	
		61.02.44	10%	
		61.02.45	10%	
		61.02.49	10%	
		61.02.50	10%	
		61.02.60	10%	
		61.02.71	10%	
		61.02.79	10%	
		61.02.81	10%	
		61.02.89	10%	
		61.02.90	10%	
		61.03.11	10%	
		61.03.19	10%	
		61.03.21	10%	
		61.03.29	10%	
		61.03.31	10%	
		61.03.39	10%	
		61.03.90	10%	
		61.04.11	10%	
		61.04.19	10%	
		61.04.21	10%	
		61.04.29	10%	
		61.04.30	10%	
		61.04.90	10%	
		61.05.00	10%	

Item (1)	Description of Goods (2)	Heading No. (3)	Rate of Duty (4)	Notes (5)
		61.06.11	10%	
		61.06.19	10%	
		61.06.90	10%	
		61.07.00	10%	
		61.08.00	10%	
		61.09.10	10%	
		61.09.90	10%	
		61.10.19	10%	
		61.10.90	10%	
		61.11.00	10%	
3	Fencing Wire	73.26.00	10%	
		73.27.30	10%	
		73.27.90	10%	
4	Footwear	64.01.10	10%	
		64.01.29	10%	
		64.01.90	10%	
		64.02.10	10%	
		64.02.20	10%	
		64.02.39	10%	
		64.02.90	10%	
		64.03.00	10%	
		64.04.00	10%	
5	Radios	85.15.50	10%	
		85.15.51	10%	
		85.15.52	10%	
		85.15.53	10%	
6	Soaps and deter gents	34.01.10	10%	
		34.01.20	10%	
		34.01.30	10%	

Item (1)	Description of Goods (2)	Heading No. (3)	Rate of Duty (4)	Notes (5)
		34.01.40	10%	
		34.01.90	10%	
		34.02.10	10%	
		34.02.90	10%	
		34.05.10	10%	
7	Sugar	17.01.21	10%	
		17.01.29	10%	
8	Tyres and tubes	40.11.61	10%	
		40.11.62	10%	
		40.11.69	10%	
		40.11.92	10%	
		40.11.93	10%	
		40.11.99	10%	
9	Services provided by hotels		10%	

PART V

PRESCRIBED FORMS

- 16. Prescribed forms
- 17. Particulars to be entered on forms.
- 18. Completion of forms.

PART VI

MISCELLANEOUS

- 19. Production of evidence.
- 20. Securities
- 21. PENALTIES.

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[SUBSIDIARY]

Sales Tax Regulations

Statutory instruments

59 of 1975

69 of 1975

29 of 1976

17 of 1976

26 of 1977

19 of 1979

SECTIONS 20 AND 38 - THE SALES TAX REGULATIONS

Regulations by the Minister

PART I

PRELIMINARY

Title 1. These Regulations may be cited as the Sales Tax Regulations.

(No. 69 1975)

PART II

REGISTRATION

Application for registration or exemption:

2. (1) Every person required to register or to apply for exemption under the provisions of section seven of the Act shall, within thirty days following the commencement of the Act or, in the case of a business established after the commencement, of the Act, within such period as the commissioner of the Act, within such period as the commissioner may, by notice to be published in the Gazette, determine, submit to the proper officer an application for a registration certificate or for exemption,

2. (a) An application for registration and an application for exemption shall be in form No. ST.1 and form No. ST.2, respectively.

(b) A dealer shall pay:-

- (i) at the time of registration, a registration fee of K40.00: provided that if the dealer is registered after the 30th June in any year, he shall pay a registration fee of K20.00;
- (ii) thereafter, not later than the 31st January in each year, an annual fee of K40.00.

[As amended by No. 69 of 1975, No. 29 of 1976 and No. 19 of 1979]

Registration Certificates:-

3. (1) Where the proper officer is satisfied that an applicant is required to be registered under the provisions of section seven of the Act, he shall issue a registration certificate in Form No. ST.3.

(2) If a registration certificate is lost or defaced, an application for the issue of a duplicate of the original registration certificate may be made to a proper officer who shall, after making such inquiries and being supplied with such information as he may think necessary, cause a duplicate certificate of registration to the sum of K2.00.

(3) A registration certificate shall not be transferred.

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REGISTRATION CERTIFICATE TO BE DISPLAYED:

4. (1) Every holder of a registration certificate should:-

(a) have his name securely affixed in a conspicuous place on the outside of the licensed premises in legible letters of at least 5 centimetres in height;

(b) display the registration certificate upon the licensed premises in such a manner as to be visible to anyone entering such premises.

(2) Any person contravening the provisions of this regulation shall be guilty of an offence.

PART III

RETURNS AND PAYMENT OF TAX

RETURNS IN RESPECT OF LOCALLY MANUFACTURED GOODS, ETC:

5. (1) Within twenty-one days following the end of each month, every registered dealer shall, in relation to taxable goods manufactured in Zambia and/or services rendered, submit to the commissioner in respect of such month, returns in Form No. ST.4 and in Form No. ST.6.

(2) The documents required to be submitted to the commissioner under sub-regulation (1) shall be so submitted whether or not any sales were made during the month to which such documents relate.

- (3) Any person contravening the provisions of this regulation shall be guilty of an offence.

RETURNS IN RESPECT OF IMPORTED GOODS:

6. Returns in respect of any taxable goods imported or to be imported shall be made:-
- a) in the case of taxable goods to be entered for consumption, by the completion and submission to the proper officer of a bill of entry in Form No. ST.5, and by the payment to him of any tax due on such goods;
 - b) in the case of taxable goods to be entered for warehousing, by the completion and submission to the proper officer a bill of entry in Form No. ST.7;
 - c) in the case of taxable goods to be entered under rebate, by the completion and submission to the proper officer of a bill of entry in Form No. ST.9; and
 - d) in the case of taxable goods to be entered for any purpose which is not specified in this regulation, in such manner as the commissioner may, from time to time, determine.

WAREHOUSE GOODS:-

7. Subject to the provisions of Section Fifteen of the Act, a return in respect of Warehoused goods shall be in Form No. ST.8.

PAYMENT OF TAX AT CESSATION OF REGISTRATION:-

8. If a registered dealer ceases to be qualified for registration, he shall forthwith pay the tax:-
- a) on all taxable goods owned by him, as if such goods were sold to independent purchasers in the ordinary course of business; and/or

b) on all taxable materials and partly manufactured goods owned by him which have been acquired by him pursuant to section twenty-three of the Act, on the cost of such goods.

PART IV

REBATES, REFUNDS AND REMISSIONS

REBATE OR DRAWBACK OF TAX:—

- 7.(1) Subject to the provisions of section twenty-three of the Act, rebate or drawback of tax shall be granted on all goods specified in column (2) of the second schedule when such goods are imported or acquired locally by registered dealers for use in producing taxable goods for sale.
- (2) The rebate or drawback of tax referred to in sub-regulation (1) shall be granted only as a credit against any tax paid by a registered dealer who has used taxed goods in the production of taxable goods.

(No. 19 of 1979)

REMISSIONS OF TAX ON EXPORT:—

10. (1) Subject to the other provisions of this regulation, a remission of tax shall be granted in respect of goods exported by a registered dealer within one year following the date on which they were manufactured; provided that no remission of tax shall be granted under this regulation in respect of any unused motor vehicle which has been bought from a registered dealer and which is for the private use of a resident emigrating from Zambia.

(2) An exporter of taxable goods shall tender to a proper officer at the place from which the goods are to be despatched, an application for a remission of tax in such form as the Commissioner may determine together with:-

- a) a copy of the invoice showing the sale of goods to a purchaser outside the Republic:-
- b) a copy of the carriers' consignment note showing direct and unbroken transit to the purchaser outside the Republic; and
- c) an acquitted certificate of the application.

REBATE OF TAX ON TRAVELLERS' EFFECTS:

11. (1) The Commissioner shall grant a rebate of tax the total amount of which shall not exceed fifty Kwacha for each traveller in respect of goods other than merchandise, imported by a traveller which are carried by him in his baggage or upon his person and declared to a proper officer, if rebate under this sub-regulation has not been granted to such traveller in the preceding sixty days.

(2) Where the amount of tax payable by a traveller after the deduction of the rebate referred to in sub-regulation (1) is less than two Kwacha, such amount shall also be rebated.

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SALES TAX

[cap.663]

Sales Tax Regulations

[SUBSIDIARY]

CONDITIONS FOR REMISSION OF TAX

12. A remission of tax may, at the discretion of the Commissioner, be allowed on any single consignment of goods (excluding alcoholic beverages, cigars or manufactured tobacco)

imported by parcel post, when the total value of such consignment for tax purposes does exceed fifty Kwacha, on condition that:-

- a) such consignment is sent to a private person by or on behalf of another person resident outside Zambia;
- b) such consignment consists only of articles for the personal use of the addressee or his family;
- c) such consignment is not imported for sale or for industrial or commercial use; and
- d) not more than one such consignment is sent to the same person within any period of thirty days.

REBATE ON GOVERNMENT GOODS, ETC:

13. (1) Subject to the other provisions of this regulation, a remission of tax shall be granted in respect of services rendered exclusively to or goods imported by, or sold to, and for the exclusive use of the Government, or the Government of any other country, use of any school or hospital approved by the commissioner, but not including motor vehicles for the transport of persons:

Provided that no application for refund of tax under this regulation shall be

granted unless such application is received by the proper officer within a period of two years from:-

- (i) the date of purchase of the goods from a registered dealer; or
- (ii) the date of importation of the goods, where such goods are imported into Zambia by the claimant.

8(2) The provisions of sub-regulation (1), in as far as they apply to a school or hospital, shall not include motor vehicles for the transport of persons falling within CCC tariff item 87.02.90 - 87.02.99 inclusive.

(No.19 of 1979).

REMISSION OF TAX ON GOODS FOR USE BY APPROVED PERSONS:

14. (10) Subject to the provisions of this regulation, remission of tax shall be granted in respect of goods imported or taken out of bond for use by such persons or organisations as the Minister may approve in writing, on condition that the goods so imported or taken out of bond as the case may be, shall not be sold or otherwise disposed of without payment of tax (which payment shall be made to the Commissioner at the rate leviable at the date of such sale or disposal) to any person not entitled to import or purchase the same free of tax and subject to such other conditions as the Minister may in any particular case determine:

provided that the persons or organisations which may be approved under this regulation

shall be those entitled to remission of tax in accordance with any agreement to which the Republic is a party.

(2) Any person desiring to obtain remission of tax pursuant to this regulation shall make an application therefore to the Minister in writing submitting details of:-

- (a) The agreement in accordance with which the entitlement is claimed;
- (b) The goods in respect of which remission is desired;
- (c) Whether such goods will be imported, taken out of bond or purchased from a registered dealer; and
- (d) The specific purpose for which such goods are to be used.

(3) For the purpose of determining the amount of tax payable on an article sold or disposed of for use in Zambia, the Commissioner may take into consideration the depreciation of such article since its importation, removal from bond or purchase from a registered dealer and the Commissioner shall remit the tax if such sale or disposal is effected more than two years after the date when a remission of tax was first granted.

REBATE IN RESPECT OF CONTAINERS:-

15. Where taxable goods are sold by a registered dealer in returnable containers, a remission of tax shall, subject to the provisions of section six of the Act, be granted in respect of such containers.

PART V
PRESCRIBED FORMS

PRESCRIBED FORMS:—

16. (1) Any person transacting business with the department shall provide at his own expense all the relative forms specified in the First Schedule, with the exception of Form No. ST.3.
- (2) Unless otherwise provided, the forms set out in the First schedule shall be printed in black ink, on paper of dimensions 297 millimetres by 210 millimetres.
- (3) No person other than the Government Printers shall print or reproduce Form No. ST.3.
- (4) Any person contravening the provisions of this regulation shall be guilty of an offence.

PARTICULARS TO BE ENTERED ON FORMS:

17. Any person who is required to complete any form prescribed by these regulations shall state thereon all particulars specified on such form, shall give such information as may be required as to the description, quantities and values of any goods or services which may be entered on the said form, and shall furnish such particulars as may be required for the completion of reliable trade statistics.

COMPLETION OF FORMS:

18. All forms required to be completed by these regulations shall be completed indelibly in a legible manner. A proper officer may refuse to accept any form if he considers that any part of it is illegible or that it has not been properly completed.

PART VI
MISCELLANEOUS

PRODUCTION OF EVIDENCE:

19. Any applicant making a claim for a remission of rebate of tax shall produce such documents and furnish such information in support of the claim as the commissioner may require.

SECURITIES:

20. (1) If a security is required in terms of section twenty-four of the Act, it shall be in such sum as the Commissioner may determine and, unless the person from whom the security is required opts to deposit the required sum or equivalent securities with the Commissioner, such security shall be in such form as the Commissioner may determine and shall be given by such securities as the Commissioner may approve.
- (2) Where a bond given under this regulation is discharged, the Commissioner shall cause such bond to be cancelled and an endorsement to that effect made thereon.

PENALTIES:

21. Any person who is guilty of an offence under these regulations shall be liable upon conviction to a fine not exceeding fifty kwahca or to imprisonment for a term not exceeding three months, or to both such fine and imprisonment.

No. of 1988)

Sales Tax (Amendment)

(No. 2)

APPENDIX D

(Section 2)

Sales Tax Tariff

FIRST SCHEDULE

(Section 4)

IMPORTED GOODS

The goods listed in column (2) on the table below shall be liable if imported, to tax at the rate shown in Column (4):

Column (1)	Column (2)	Column (3)	Column (4)
Item	Description of goods	CCCN Heading or Chapter No.	Rate of tax as Percentage of taxable Value
1.01	Goods imported into the Republic other than those in respect of which: (a) no customs duty is payable under the Customs Tariff set out in the First Schedule of the Customs and Excise Act, Cap.662. (b) A full drawback, refund, rebate or remission of duty is granted or on		

which duty is
 wholly suspended
 under the provisions
 of any regulations
 made under section
 eighty-nine of the
 Customs and Excise Act,
 Cap.662; and

- (c) Goods falling under
 heading Nos.
 87.01.90; 87.02.90
 and 87.04.00

Chapters 1
 to 100

20%

APPENDIX (E)
SECOND SCHEDULE
(Section 4)

Locally Manufactured Goods

The locally manufactured goods listed in column (2) of the table below shall be liable to tax at the rate shown in column (5)

Column 1	Column 2	Column 3	Column 4	Column 5
		CCCN NO.		Rate of tax
		or	Status-	as Percent-
		Chapter	tical	age of tax-
Item	Description of Goods	NO.	Unit	able Value
2.00	Packing containers of paper, paper board and plastic material including lids and covers	39 & 40	Kg	20%
3.00	Fabrics:			
3.10	Woven cotton and man-made	55.09/ 56.09	M2	20%
3.20	Knitted or crocheted excluding mutton cloth	60.01	M2	20%
4.00	Articles of apparel and clothing excluding baby napkins and school uniform	Cap.39 60 & 61	NO.	20%
5.00	Stockings, under stockings socks, ankle socks, sockets and the like for school	60.03	pair	15%
		60.60	pair	15%
		61.10	pair	15%
5.02	Other than for school	60.03	pair	25%
		60.60	pair	25%
		61.10	pair	25%

Column 1	Column 2	Column 3	Column 4	Column 5
		CCCN NO. or Chapter	Statist- ical Unit	Rate of Tax as Percentage of taxable Value
Item	Description of Goods	No		
6.00	Food and non-alcohol- ic beverages:			
6.01	Butter	04.03	kg	20%
6.02	Cheese	04.04	kg	20%
6.03	Preparation of meat or fish	Cap.16	kg	20%
6.04	Macaroni, supaghetti and similar products	19.03	kg	20%
6.05	Prepared or preserved vegetables and fruits	20.01	kg	20%
6.06	Pastry, biscuits, cakes and other fine bakers wares	19.08	kg	20%
6.07	Syrups and treacles and other sugar confec- tionery	Cap.17	kg	20%
6.08	Jams, fruit jellies and marmalades	20.05	kg	20%
6.09.	Ice-cream	21.07	kg	20%
6.10	Prepared foods obtained by the selling or roast- ing of cereals and cereal products (puffed rice, cornflakes and similar preparations)	19.05	kg	20%
6.11	Sauces, soups and broths, and other food preparations	Cap.21	kg	20%

Item	Description of Goods	CCCN No.	Statistical	Rate of
		or Chapter No.	Unit	tax as Percentage of taxable Value
12.00	Glues	Cap.35	kg	20%
13.00	Matches	36.06	Hundred	15%
14.00	Furniture and other carpentry and joinery products	44.13	kg	20%
		44.23	kg	20%
		44.27	kg	20%
		83.04	kg	20%
		94.01	kg	20%
		94.03	kg	20%
15.00	Plywood and similar wood products	Cap.44	kg	20%
16.00	Carpets, carpeting mats, matting rugs	58.01	M2	20%
17.00	Ropes, cordage and cables	Cap.73	kg	20%
		54.04	kg	20%
18.00	Tableware and other articles of kind commonly used for domestic or toilet purposes and sanitary ware for indoor use, and parts of such articles and ware of iron, steel, copper,			

Column 1	Column 2	Column 3	Column 4	Column 5
Item	Description of Goods	CCCN No. or Chapter No.	Statistical Unit	Rate of tax as Percentage of taxable Value
	aluminium, plastic			
	porcelain, china or			
	other kinds of pottery;			
	of glass or mica; of			
	cement, concrete,			
	asbestos, cement,			
	natural stone (lime-			
	stone, marble, granite			
	porphyry serpentine, etc.)			
	with lime or cement or			
	other binders (for			
	example artificial			
	plastic materials); or			
	ceramic; of earthen or			
	of other artificial			
	stone or mineral sub-			
	stances not elsewhere			
	specified or included	Cap.25	kg	20%
		32.08	kg	20%
		39.07	kg	20%
		68.11	kg	20%
		68.12	kg	20%
		68.13	kg	20%
		68.15	kg	20%
		68.16	kg	20%
		69.10	kg	20%
		69.11	kg	20%
		69.12	kg	20%

Item	Description of Goods	CCCN No.	statistical Unit	Rate of
		or Chapter No.		tax as Percentage of taxable Value
		69.13	kg	20%
		69.14	kg	20%
		Cap. 70	kg	20%
19.00	Jewellery and other of precious metal; or precious or semi- precious stones; imit- ation jewellery	71.01	kg	20%
		71.02	kg	20%
		71.03	kg	20%
		71.12	kg	20%
		71.13	kg	20%
		71.15	kg	20%
		71.16	kg	20%
20.00	Electric batteries			
20.10	Primary cells and batteries	85.03	No.	15
20.20	Accumulators and parts therefor	85.04	No.	20%
21.00	Radio receivers and sound reproducers	85.15	No.	15%
		92.11	No.	15%
22.00	Gramophone records	92.12	No.	20%
23.00	Recorded tapes and similar sound reprod- ucing media			
24.00	Television receiver	85.15	No.	20%
25.00	Mattresses and mattress supports	40.14	No.	20%

Column 1	Column 2	Column 3	Column 4	Column 5
Item	Description of Goods	CCCN No. or Chapter No.	Statistical Unit	Rate of tax as Percentage of taxable Value
26.00	Travelling rugs and blankets	65.04	kg	10%
27.00	Bed linen, table linen, toilet linen curtains and other furnishing articles	62.02 62.01	kg	15%
28.00	Travel goods (for example, suitcases, travelling bags and chest, trunks, valises, haversacks, etc.)	62.02 42.02 43.03 44.28 46.03 73.40	kg	20%
29.00	Tarpaulins, tents, awnings and similar articles; motor canopies	39.07 62.04	kg	20%
30.00	Carboys, bottles, jars, pots, tubular containers, lids and stoppers, of glass, of a kind commonly used for conveyance or packing used of goods	70.10	kg	20%

Column 1	Column 2	Column 3	Column 4	Column 5
Item	Description of Goods	CCCN NO. or Chapter No.	Statistical Unit	Rate of tax as Percentage of taxable Value
31.00	Concrete pipes and tubes	68.11	kg	20%
32.00	Tyres and tubes, of rubber	40.11	kg	20%
33.00	Retreaded rubber tyres	40.11	kg	20%
34.00	Brooms, brushes and feather dusters	96.01	kg	20%
		96.02	kg	20%
		96.04	kg	20%
		96.05	kg	20%
35.00	Aerosol insecticides	38.11	kg	20%
36.00	Footwear	64.01	pair	20%
		64.02	pair	20%
		64.03	pair	20%
		64.04	pair	20%
37.00	Cement	25.23	tonne	5%
38.00	Articles of copper	74.17	kg	20%
		74.19	kg	20%
39.00	Iron and steel castings being articles of iron and steel	73.38	kg	20%
		73.40	kg	20%
40.00	Metal containers for the commercial packing storage or transport of			

Column 1	Column 2	Column 3	Column 4	Column 5
Item	Description of Goods	CCCN No. or Chapter No.	Statistical Unit	Rate of tax as Percentage of taxable Value
	goods such as fruit, preserves, etc., lids and covers	73.23 76.10 77.03	kg kg kg	20% 20% 20%
41.00	Electrical machinery, equipment and applia- nces	Cap.85	No.	20%
42.00	Electric cables	85.23	kg	20%
43.00	Crown Corks and similar articles	83.13	per 100	20%
44.00	Electricity	27.17	kwh	15%
45.00	Printed matter, such as price list, catal- ogues, calendars, diaries, etc., but excluding books, magazines, periodicals, newspapers and similar publications, articles of stationery, plain or printed	Cap.48 & 49	kg	20%
46.00	Paints, varnishes, lacquers and distempers	32.09	litre	20%
47.00	Yarn	56.05 56.06	kg kg	20% 20%

Column 1	Column 2	Column 3	Column 4	Column 5
Item	Description of Goods	CCCN NO. or Chapter No.	Statist- ical Unit	Rate of tax as Percentage as taxable Value
48.00	Elastic bands and slide fasteners	60.06 59.13	M2 M2	20% 20%
49.00	Any goods of this schedule produced from a formular based on or using local technology developed by a local research organisation as may be determined by the Commissioner	-	-	5%
50.00	Motor vehicles for the transport of persons only falling within heading No. 87.02.10; A. Of an engine capacity not exceeding 1000cc B. Of an engine capacity exceeding 1200cc. C. Of an engine capacity exceeding 1200cc. D. Of an engine capacity exceeding 1600cc	87.02 87.02 87.02 87.02	No. No. No. No.	5% 10% 15% 20%
51.00	Building putty	32.12	kg	10%
52.00	Glass and glassware, excluding spectacle, and	Cap.25,		

Column 1	Column 2	Column 3	Column 4	Column 5
Item	Description of Goods	CCCN NO. or Chapter NO.	Statist- ical Unit	Rate of tax as Percentage of taxable Value
	protective goggle lenses,	32.68		
	laboratory and pharmaceut- ical wares	70.82		
		90		
53.00	Imitation leather	41.10	kg	20%
		48.01	kg	20%
		59.07	kg	20%
		59.08	kg	20%
54.00	Asbestos pipes and tubes	68.12	kg	20%
55.00	Refrigerators	84.15	kg	20%
56.00	Safes, cash and deed boxes	83.03	kg	20%
57.00	Buttons	98.01	kg	20%
58.00	Floor tiles, wall tiles and roofing tiles	68.11	kg	20%
		68.12	kg	20%
59.00	Lawn movers	84.25	kg	20%
60.00	Toilet and sanitary paper, tissues	48.15	kg	20%
		48.21	kg	20%
61.00	Scouring powder and metal polishes	34.05	kg	20%
62.00	Pillows and cushions	40.12	kg	20%
		40.14	kg	20%
		62.04	kg	20%
		62.05	kg	20%

Column 1	Column 2	Column 3	Column 4	Column 5
Item	Description of Goods	CCCN No. or Chapter No.	Statistical Unit	Rate of tax as Percentage of taxable Value
63.00	Edible animal or vegetable oils and fats; imitation lard and other prepared edible fats	Cap.15	kg	5%
64.00	Soap; organic surface- active products, preparat- ions and agents; washing and cleaning preparations, whether or not containing soap	Cap. 34.01 34.02		
64.10	Soap		kg	5%
64.20	Other		kg	5%
65.00	Name plates, sign plates numbers, letters and other signs of base metal, plastic or wood.	Cap.39 44 and 83	kg	15%

APPENDIX (F)
 THIRD SCHEDULE
 (Section 4)
 TAXABLE SERVICES

The services listed in column (2) of the table below shall be liable to tax at the rate shown in column (3):

Column (1)	Column (2)	Column (3)
Item	Taxable Services	Rate of tax as percentage of taxable Value
001	Services (and goods provided with such services) by a hotel or a restaurant	10%
002	Dry cleaning or laundry services	15%
003	Telecommunication services excluding those rendered, to the Government or the Government of any other country	15%
004	Advertising and related services provided by advertising agencies, television, radio, newspapers or any other similar notices connected with death	20%
005	Auctioneers, services	15%
006	Hairdressing, including hair plaiting, perming, cutting, shampooing and the like beauty treatment	15%
007	Professional services rendered by accountants, architects,	

Column 1	Column 2	Column 3
		Rate of tax as Percentage of taxable Value
Item	Taxable Services	
	auditors, lawyers, surveyors, consultants, engineers, planners and the like	15%
008	Security services	15%
009	Garage services such as vehicle maintenance, repairs, spray painting, panel beating, etc.	15%
010	Vehicle, boat and launch hire services	15%
011	Computer hire and maintenance services	15%
012	Photographic services	15%
013	Television and video hire, including video tapes and video discs	15%
014	Services provided by Customs Clearing and Forwarding Agents	15%
015	Typewriter and office machine maintenance and repair services	15%
016	Engine reconditioning	15%
017	Driving School instruction	15%
018	Plant equipment hire	15%

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