A Tax Too Far

The economic impact of Zambia's proposed Sales Tax

The Zambia Chamber of Mines

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Zambia Chamber of Mines

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1 FOREWORD

Taxes and rates of taxation matter to all governments, citizens and businesses, the world over.

Without taxes, the State cannot function. Taxes make up the bulk of the State's revenue, from which it provides such essential services as the maintenance of law and order, infrastructure, and so on. But taxes reduce the amount of money left over to us, to cover our own needs. If they become too onerous, we may start to question whether all the hard work was worth it. Some may not be able to afford to continue as before, or make the same purchases. Others may choose to do something else, or go somewhere else. If enough of us change our behaviour, then the condition of the economy will change, and so too will the amount of tax the State receives.

This is particularly relevant to consumption taxes, such as VAT or Sales Tax, where tax receipts are dependent on people buying goods and services.

There has been much understandable concern about the effect that the Government of Zambia's proposed Sales Tax will have on the economy. Will it improve upon the current system, or might it suppress economic activity, and cause harm to the economy?

In this report, which the Chamber of Mines and its members have produced with the assistance of a team from one of the 'Big Four' international accounting firms, we answer many of the big questions; everything from explaining the basics of how taxes – and this tax in particular – work, to providing hard numbers on the likely economic impact.

We hope that you, the reader, find our report enlightening, and we hope that it generates a constructive debate on the best way forward for Zambia.

Goodwell Mateyo

President
Zambia Chamber of Mines

2 INTRODUCTION

On 28 September 2018 the then Minister of Finance, Honourable Margaret Mwanakatwe, announced that the Value Added Tax (VAT) regime would be replaced with a Sales Tax on all goods and services supplied in Zambia.

Since then, there has been much discussion and debate on the subject.

This report introduces the reader to the key differences between the two tax systems, and to the 'hybrid' that the Government of Zambia is proposing. The report analyses the impact of the proposed Sales Tax, especially on the mining industry, and the potential repercussions for the value chains involved in the mining sector and the wider economy. Lastly, the report compares the impact of the proposed Sales Tax to the present VAT system, and to other comparable tax systems around the world.

The underlying research for this report was conducted at arms-length from the mining industry, by a Zambian office of one of the 'Big Four' international accounting firms.

In order to properly understand the impact of this significant change in the taxation system it is necessary to gain an understanding of the basic principles underlying the two taxes and how the two tax systems work.

3 THE BASIC PRINCIPLES

3.1. WHAT ARE SALES TAX AND VAT?

Both VAT and a conventional Sales Tax (sometimes known as a Retail Sales Tax, or a Goods & Services Tax) are taxes that are imposed on the consumption of goods and services.

Sales Tax in brief

In a conventional Sales Tax system, Sales Tax is only charged to the end user of the goods or services. It is levied at the point of final sale, where it is collected by the retailer or the final supplier in the value chain and paid over to the tax authorities (TA).

This sounds simple, but because the majority of goods in modern economies pass through a number of stages of manufacturing, processing, marketing and distribution, and given that companies often have a varied product range, a significant amount of company documentation and regulatory capacity on the part of the Tax Authority is necessary to prove who is ultimately liable for Sales Tax on a particular item.

However, very few countries actually apply a conventional Sales Tax system. Most countries – and all comparable mining jurisdictions – that nominally have a Sales Tax, in fact operate it according to VAT principles.

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VAT explained

VAT is different to Sales Tax, in that it is levied at each stage of the supply chain where there is a 'value-adding' activity such as production, manufacturing, processing, servicing, distribution, wholesale or retail sales.

In essence, VAT is only charged and collected on the 'gross margin' that each business earns – where a business' sales revenue has exceeded its costs.

How does this work?

Under the VAT system, suppliers are required to charge VAT on the taxable sales they make. This is referred to as "Output VAT". Generally, the VAT incurred on business expenditure (referred to as "Input VAT") can be reclaimed and offset against a company's Output VAT.

A business will therefore pay over a net VAT amount where Output VAT exceeds Input VAT. However, where a company's costs exceed its sales, and therefore Input VAT exceeds Output VAT, the company would be in a net refund position from the Tax Authority.

However, this does not mean that the Tax Authority is out of pocket. Where a business is in a refund position, it is simply reclaiming tax already paid through the VAT charged by its suppliers on the goods or services used in its business.

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3.2. VAT REFUNDS

As referred to briefly above, where a company's Input VAT exceeds Output VAT, it will be entitled to a refund of the net amount from the Tax Authority. There are three main reasons for refunds.

Exports

VAT regimes generally apply the concept of international taxation known as the destination principle. This allows for VAT to be retained by the country where the taxed product is being sold. This means that VAT is collected on imports and rebated (or, refunded) on exports. In the language of VAT, exports are therefore 'zero-rated' for VAT. Zero-rated simply means that businesses are entitled to Input VAT deductions, but do not charge Output VAT on exports. Exporters are therefore almost always in a refund position.

Time lag between costs and sales

In certain industries there is a long lag time between costs and sales. This is important, because businesses are tied to VAT accounting periods. If Input VAT paid exceeds Output VAT charged in an accounting period, refunds arise. In some industries, it may take years or decades before any Output VAT is charged. With no Output VAT charged, the Input VAT paid on costs should be refunded.

Business start-ups

One can also understand the lag time differently, when (VAT registered) businesses incur large start-up costs, but their initial sale volumes are low. Until these businesses really start producing, they will be in a VAT refund position.

3.3. VAT REFUNDS AND THE MINING INDUSTRY

Unfortunately, all three reasons for refunds apply very particularly to the mining industry.

Mining is hugely capital intensive, and there is often a decade-long lead time between exploration, mine construction – when costs are particularly high – and production commencing. Then,

when production does get going, almost everything mined is exported and zero-rated. And lastly, when the mining stops and the mine is rehabilitated, once again large costs (and Input VAT) are incurred.

3.4. A COMMON MISPERCEPTION ABOUT VAT

Refunds are an inherent part of the operation of a VAT system, especially where the dominant sectors in an economy are export-focused, as is the case in Zambia.

As such, tax administrators have to be careful not to confuse the VAT they receive, with the VAT revenue the Government can eventually spend. VAT revenue should only be viewed as the amount of tax that remains *after all VAT refunds have been paid*. In other words, the amount of tax paid by the consumer.

Unfortunately, this is often misunderstood, and governments see VAT received from firms (before refunds) as VAT revenue and, consequently, VAT refunds as foregone revenue. In other words, VAT refunds are mistakenly regarded as a loss to the Government. This misunderstanding, and the approach to VAT that accompanies it, lies at the core of the refund challenges experienced by developing countries.

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So why then would a government persist with a VAT system?

3.5. VAT SYSTEMS ARE EFFICIENT

If properly managed and monitored, VAT systems are more efficient than the alternatives, both in terms of the cost of collection and the amount of tax collected. Also, there is no reason why any tax administration should suffer losses under a VAT system. In general experience, tax leakages under a VAT system are attributable to poor implementation and administration, and ineffective monitoring which can encourage VAT-specific tax evasion (everything from complex carousel frauds, to businesses simply failing to book sales).

3.5. VAT SYSTEMS ARE SELF-REGULATING

A major advantage of a VAT system is that it is self-regulating. As a business will want to obtain maximum relief for Input VAT incurred on business expenditure, it will make every effort to ensure that invoices raised by its suppliers reflect the correct amount of VAT on all their purchases. This then provides an automatic control for the Tax Authority, because it can cross-check a company's stated Output VAT against the invoices issued to its customers, who will be claiming that amount as Input VAT. The effect of this is that each company in a value chain, acting from self-interest, becomes a check upon both its suppliers and its clients to ensure that the correct VAT amounts are recorded (or, to provide

evidence of any misstatement). A Sales Tax regime has no similar self-regulating/ self-reporting mechanism built into it, as customer companies do not need to report and claim the Sales Tax suffered on their purchases.

The normal VAT return filing system can also be greatly enhanced by digital technologies to instantly and directly match the Output and Input VAT between suppliers and their customers. Rwanda has applied an invoice matching software solution to manage the refund process, and the Zambia Revenue Authority (ZRA) should consider a similar acquisition as a means of addressing the present challenges with Zambia's VAT regime. It is likely to be far less costly to acquire than the costs of administering a Sales Tax, the complexities involved and the likelihood of leakage, and the indirect damage to the economy that the proposed system will bring about.

> *A major advantage of a VAT system is that it is self-regulating.*

4 THE PROPOSED SALES TAX FOR ZAMBIA

The Sales Tax that is currently being proposed for Zambia is neither a conventional Sales Tax, nor a VAT system. Instead, it borrows from both, and is often referred to as a 'hybrid'.

Unlike a conventional Sales Tax which is levied only on the end user, it is proposed that Zambia's Sales Tax – 9% on local sales, and 16% on import purchases – should be levied on all transactions, with exemptions only being granted for selected business expenses. Whilst this looks like VAT, which is also levied at each stage in the value chain, under Zambia's proposed Sales Tax companies will not be allowed to offset the Sales Tax incurred on business expenses (unless they happen to be exempt).

In short, the proposed Sales Tax for Zambia will not actually be a tax on consumption, as a conventional Sales Tax or VAT are, but will be a tax on transactions. In this way, it will operate similarly to a bank charge on transactions (except of course, the bank is providing a service).

As there is no relief for the tax, the Sales Tax will inflate the costs of businesses in each industry sector. In most cases, these additional costs will be passed on through the value chain, with the consumer bearing the brunt of significant price increases. This unpleasant phenomenon is known as the 'cascade effect'.

> *The proposed Sales Tax for Zambia will not actually be a tax on consumption, as a conventional Sales Tax or VAT are, but will be a tax on transactions.*

4.1. WHAT IS THE 'CASCADE EFFECT'?

All of the key industry sectors in Zambia have a number of intermediaries within the supply chain, such as manufacturers, distributors, and so on. As Sales Tax is levied at each stage within the supply chain on non-exempt goods, and there is no ability to offset or recoup Sales Tax on expenses incurred, the price charged to each customer will increase, as the means of recouping the additional burden that is the Sales Tax. Worse, because there is no relief from the tax, and it is levied at each stage in the chain, one on top of the other, the effect of the tax is compounded

for those businesses in the middle or at the end of a supply chain. This is a form of double taxation – a tax on tax – and the longer the supply chain, the higher the accumulated amount of tax there will be. In most cases, this will simply be reflected in increasingly higher prices through the value chain, with the end customer (often individual Zambians) left in the worst possible position.

4.2. WHAT IMPACT WILL SALES TAX HAVE ON THE MINING INDUSTRY?

Quite apart from the 'big picture' concerns of price inflation within the wider economy, the proposed Sales Tax will have specific negative impacts on mining companies and their suppliers. Further, the implications of the 'cascade effect' will particularly disadvantage local Zambian businesses, and will perversely incentivise mining companies to import goods directly, to the exclusion of local suppliers with whom there are currently strong links.

Key services to the mining industry will not be exempt from Sales Tax (such as contract mining, equipment maintenance etc.). Additionally, key consumable inputs and services that particularly affect the mining sector, such as fuel and electricity have been excluded from exemption lists. The draft Sales Tax Bill provides for Sales Tax to be charged on both imports and local supplies at a rate of 16% and 9% respectively.

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5 A VALUE CHAIN ANALYSIS:

Impact of Sales Tax on a typical Zambian mining value chain

To illustrate the additional costs of the proposed Sales Tax legislation versus the current VAT system we can consider the following value chain for a local copper mine – Mine Co.

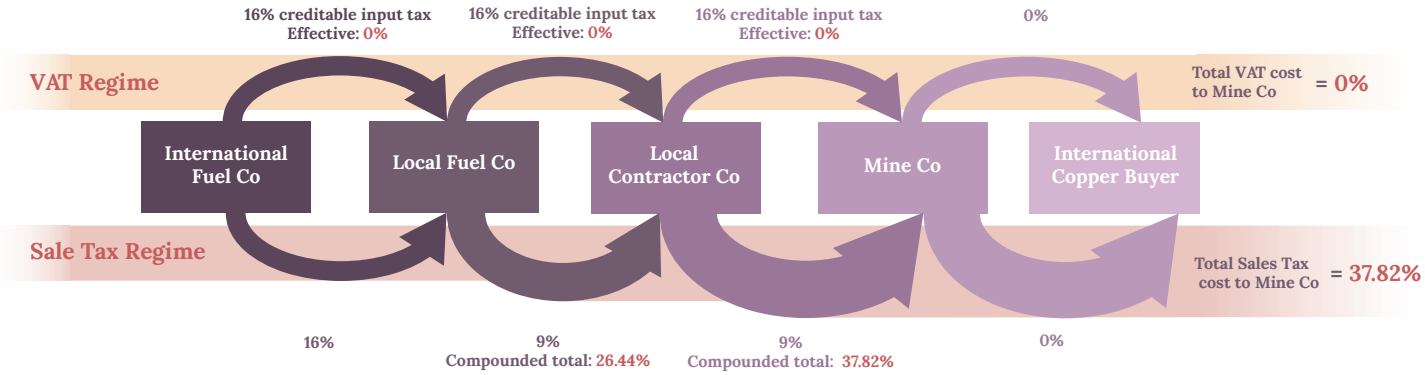
In order to operate its mines, Mine Co requires several key supplies such as fuel, explosives, spares and maintenance, capital equipment and electricity. The current supply of some of these items is through complex value chains, with multiple levels of suppliers, including local businesses that are licensed to purchase/ distribute some of these materials.

The current VAT legislation allows for Input VAT to be offset against Output VAT, meaning that VAT costs are not cumulative along the value chain and will generally sit with the final customer. Export of goods are however zero rated, meaning that for companies (such as mining companies) which predominantly export the goods they produce, VAT should not be a cost. The new GST legislation proposes to charge GST at each level of the value chain, with no mechanism for credits or exemptions, meaning charges are cumulative and inflate costs at each level.

Taking the fuel value chain as an example, a local fuel company (Local Fuel Co) would purchase fuel from a non-resident fuel company (International Fuel Co). Local Fuel Co would then sell the fuel to a licensed local contractor (Local Contractor Co), who would then sell this fuel onto Mine Co. This is illustrated in the below example.

For simplicity the following key assumptions were made to illustrate the difference between the two systems:

- The rate of Sales Tax on imports and local sales is 16% and 9%, respectively.
- The final entity in the chain exports 100% of goods produced.



The key impacts may be summarised as follows:

- Sales Tax increases the cost of operations for each supplier in the value chain because the Sales Tax cannot be reclaimed/credited;
- The compounded increase results from the "tax on tax" effect at each intermediate stage of the value chain, which shows how the effect is worse the more transactions there are in a supply chain. The inevitable business incentive will be to shorten the supply chain, wherever possible.
- In the given example the cost for Mine Co increases by 37.82% compared to the VAT regime.

It is estimated that only 25% of costs incurred by mining companies will be covered by the exemptions currently being proposed. Notably the list does not include key inputs such as fuel – as in the example above – explosives, electricity, and spares and maintenance.

Most businesses are able to determine the price of their own goods, and so in most cases, the additional costs of Sales Tax will be passed on, in whole or in part, through the value chain. This is the cascade effect. However, mining companies cannot do that, as the price of commodities is set on international exchanges, which move only with global trends (such as international trade prospects). So, Zambia's mining companies will be facing a very substantial rise in their costs, without the ability to price their product accordingly. They will act to minimise the impact on their businesses.

In the case of fuel and explosives, where only certain companies can hold the necessary licenses for distribution and sale within Zambia, mining companies will attempt to share the burden of the increased costs with their suppliers. This will further cripple an industry that is still reeling from the changes to the mining tax regime introduced in January 2019.

However, because the proposed Sales Tax particularly disadvantages longer supply chains, it will incentivise mining companies to procure directly from international sources, or to reduce the length of local supply chains, wherever they can possibly do so.

5.1. IMPACT ON THE INDIVIDUAL ZAMBIAN

The cost increases noted above will also apply to the ordinary Zambian purchasing fuel. The value chain would be similar; substitute a petrol station for the local contractor, with the individual as the end user, rather than Mine Co – both of whom are price takers. If the proposed Sales Tax is implemented in its current form, the public too will suffer from a very large increase in fuel costs.

> *If the proposed Sales Tax is implemented in its current form, the public too will suffer from a very large increase in fuel costs.*

5.2. SUPPLIERS TO MINING COMPANIES

A typical Zambian mine supplier company may sell spare parts, tools, maintenance equipment, specialist mining items, or a range of other goods and services to a mining company. In many cases, a supplier will sell principally or solely to mines in Zambia.

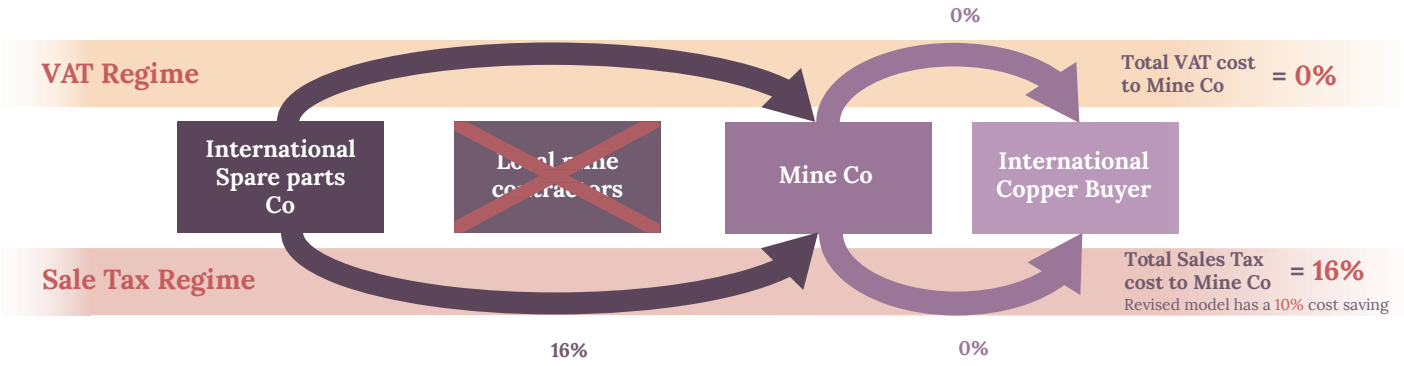
In addition to providing the specific products that they specialise in, supplier companies often provide maintenance and repair services for those items and play a vital role in helping mining companies manage their logistics and inventory, minimising equipment downtime in an industry that relies on continuous activity.

6 EFFECT OF PROPOSED SALES TAX ON SUPPLIER COMPANIES

Where the products imported by the supplier, in whole or in their component parts, are not exempt from Sales Tax, then the cost of supplying their mining clients will typically increase by more than 26.44%. This is because imported goods will be subject to a 16% import Sales Tax, with the local sale between the supplier and mine subject to a further 9% Sales Tax levy.

> *The cost of supplying their mining clients will typically increase by more than 26.44%.*

However, if mining companies were to choose to procure imports directly – not something that is in their interests to do at present – they could reduce the costs of their inputs by 10.44%, by cutting out local distributors. It would also then make sense for mining companies to train their own employees to service this directly procured equipment, and so the servicing and maintenance component to Zambian distributors' business models would also be hit hard.



Precisely what proportion of mine supplies would be procured, or how much of the cost increase suppliers would have to absorb, is difficult to ascertain at present. What is certain though is that Sales Tax will make local Zambian suppliers, that presently perform a valuable service to the industry, costly and unattractive business partners.

Furthermore, as these suppliers contend with reduced sales or lower margins, their own input costs – rent, electricity, office supplies, and so on – will be increasing as a result of Sales Tax. In all probability, the imposition of Sales Tax will drive many out of business, and given the indirect employment base of some 90,000 jobs (at a 1:3 ratio of direct to indirect jobs), the prospect of large-scale job losses is real.

> *"Sales Tax will make local Zambian suppliers, that presently perform a valuable service to the industry, costly and unattractive business partners."*

7 AN INTERNATIONAL COMPARISON:

Impact of the proposed Sales Tax compared to other mining jurisdictions

It is important to consider how a potential policy sits within an international context, where mining capital is mobile. Can a policy be regarded as following best practice? Does it sit firmly within an expected range of outcomes, appropriately sharing the benefits of mining between government and investor? Using the example of the fuel value chain above, we have selected three mining jurisdictions that nominally operate a Sales Tax or Goods and Service Tax (GST) system, and compared them against the projected impact of the proposed Zambian Sales Tax and current VAT systems. The results are stark and speak for themselves.

Cascading effect of Sales Tax versus VAT

International Fuel Co	Zambia VAT 16%	Zambia GST 16%/9%	Panama 7%	Canada FST 5% PST7%*	Australia 10%
Cost of fuel	1,000	1,000	1,000	1,000	1,000
Import VAT/Import Sales Tax	160	160	70		100
Total fuel cost	**1,160**	**1,160**	**1,070**	**1,000**	**1,100**
Local Fuel Co					
Cost of Fuel	1,160	1,160	1,070	1,00	1,100
VAT credit on purchase	(160)	-	(70)	-	(100)
Margin/value add	100	100	100	100	100
Total cost	**1,100**	**1,260**	**1,100**	**1,100**	**1,100**
VAT/Sales tax	176	113	77	-	110
Total fuel cost	**1,276**	**1,373**	**1,177**	**1,100**	**1,210**
Local Contractor Co					
Cost of Fuel	1,276	1,373	1,177	1,100	1,210
VAT credit on purchase	(176)	-	(77)	-	(110)
Margin/value add	100	100	100	100	100
Total cost	**1,200**	**1,473**	**1,200**	**1,200**	**1,200**
VAT/Sales tax	192	133	84	-	120
Total fuel cost	**1,392**	**1,606**	**1,284**	**1,200**	**1,320**
Mine Co					
Cost of fuel	1,392	1,606	1,284	1,200	1,3200
VAT credit on purchase	(192)	-	(84)	-	(120)
Total cost	**1,200**	**1,606**	**1,200**	**1,200**	**1,200**

VAT/Sales tax payable	**-**	**406**	**-**	**-**	**-**
Cost base	**1,200**	**1,200**	**1,200**	**1,200**	**1,200**
Effective tax rate	**0%**	**37.82%**	**0%**	**0%**	**0%**

** Assumes that 100% of goods produced by Mine Co are exported at zero rate VAT*

SUMMARY OF OBSERVATIONS

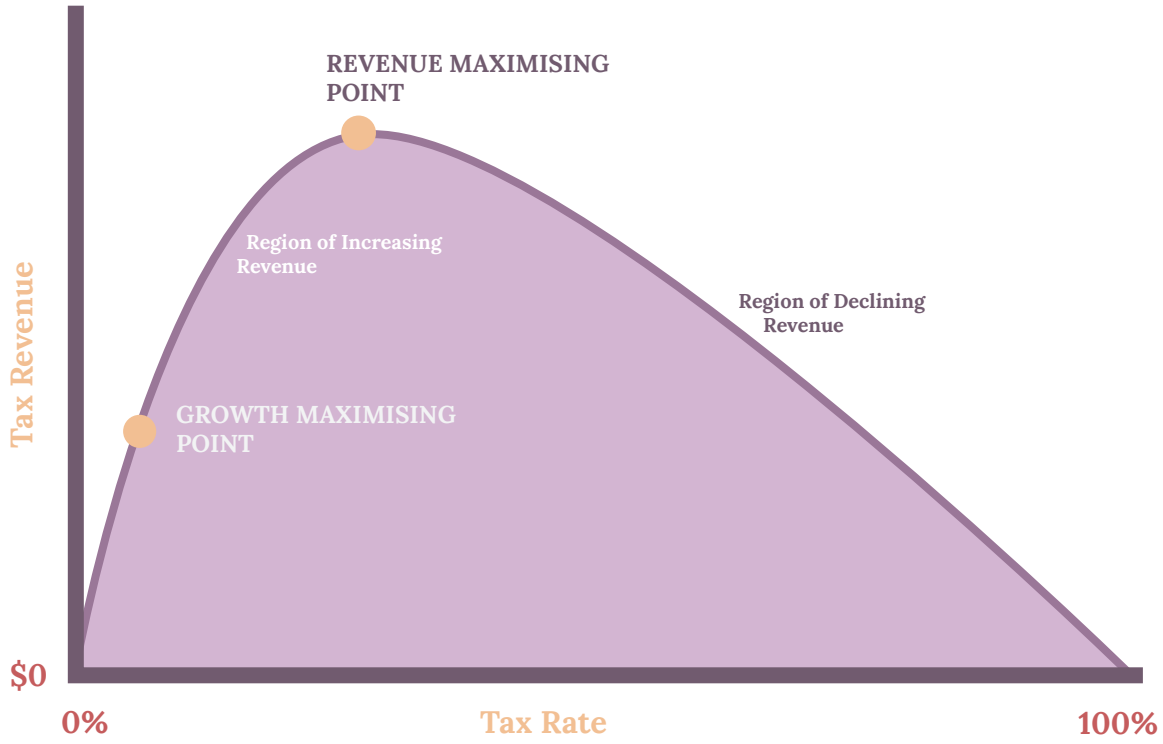
It is clear that the proposed Sales Tax Regime will result in the highest cost for Mine Co, and that its impact is wholly out of step with comparable mining regimes. The total effective tax rate under the proposed Sales Tax is estimated at 37.82%. This compares with 0% under the current VAT system and for the three mining countries used in our example, namely Panama, Canada and Australia. This further illustrates the harmful nature of the proposed Sales Tax.

“It is clear that the proposed Sales Tax Regime will result in the highest cost for Mine Co, and that its impact is wholly out of step with comparable mining regimes.”

8 CONCLUSION

The purpose of introducing the proposed Sales Tax, as well as doing away with a system of VAT refunds that has proved difficult for ZRA to administer, is to increase the overall amount of tax receipts. Certainly, the tax burden on any given transaction will increase, but as prices go up, the number of transactions could well go down as goods and services become unaffordable. The phenomenon of tax rates increasing beyond a certain point, then resulting in lower economic activity and declining tax receipts, is well understood by economists and is illustrated by the Laffer Curve.

The Laffer Curve



This graphic is purely for illustrative purposes; it does not purport to identify either growth maximising or revenue maximising points for the Zambian economy. Growth and revenue maximising points could theoretically be anywhere between 0-100%; also, the curve could potentially be flatter or steeper, or involve more than one peak. The Laffer curve is a pedagogical device for understanding where the 'sweet spots' are for a taxation regime, acknowledging that after a certain point taxation levels can have a dampening effect on economic activity.

As this report illustrates, the proposed Sales Tax, as a tax on all transactions rather than end-user consumption, will have a cascade effect throughout the economy. Long supply chains will be particularly badly hit, and the perverse incentives created by the tax will particularly disadvantage local Zambian businesses that use or distribute imported goods, and incentivise direct importation wherever possible. Further, as the price of mineral commodities is established on international exchanges, mining companies – and those local Zambian companies within their supply chain – will have to absorb the costs increase occurring from Sales Tax (a 37.8% increase in our example).

The inevitable consequence will be fewer business opportunities, more business closures, and job losses.

Furthermore, as prices increase across the board, the purchasing power of salaries will be reduced – a phenomenon known as salary erosion. The average worker is simply able to buy less of life's necessities with the wages they earn, which will inevitably lead to increasing wage demands. But, as companies will also be battling spiralling costs, any demands for wage increases are likely to be strongly resisted. Worsening industrial relations is therefore a likely indirect consequence of Sales Tax.

9 RECOMMENDATIONS

9.1. STICKING WITH VAT

The most fundamental recommendation of this report is that the proposed 'hybrid' Sales Tax, in its current form, be withdrawn.

The second, linked recommendation of this report is that Zambia re-commit to the existing VAT system, as the balance of expert opinion indicates that a VAT system is preferable to a Sales Tax for developing countries such as Zambia.

9.2. CHANGING THE APPROACH TO VAT REFUNDS

However, if VAT is to remain, it will mean fixing the debilitating problem of the non-payment of VAT refunds that has played havoc in recent years with the cashflow of Zambian businesses, great and small.

According to the United Nations 2017 Handbook, entitled 'Taxation of the Extractives Industries by Developing Countries', governments should not expect to raise much VAT revenue from mining, as VAT revenue is typically raised on domestic consumption. This indicates the need for a different approach in Zambia, at least as far as the mining industry is concerned; there are many means of raising revenue from the mining industry, but VAT is not one of them.

But while VAT revenue from the mining industry will be low, the administration relating to it will remain high due to the need to refund mining companies Input VAT on their many purchases of goods and services.

Getting this right is vitally important, as the timely payment of VAT refunds is central to attracting investment into mining. The failure to pay refunds has been described by international tax expert Marius van Oordt as a "tax on investment", because it has the effect of significantly increasing project costs, and making cash flow planning extremely difficult.

9.3. SOME POLICY OPTIONS

There are some policy options available to administrators that wish to find a way around the payment of refunds. However, none of these is a 'silver bullet' for the refund problem, and each has a downside.

One option is to allow firms to offset VAT refunds against liabilities arising from other taxes, such as income tax. This is an option for extractive industry firms that have commenced production and have other tax liabilities. But this would require that a unified taxpayer accounting debt management system be in place.

Another approach is to exempt or zero-rate goods and services typically supplied to the extractive industries. A careful selection of goods and services would be required to mitigate the risk of this exemption being used for goods and services not specific to the extractive industries, and strict audit and enforcement rules would also be required to limit any abuse. Furthermore, the UN handbook notes that such measures could risk creating a pro-import bias in the sense that VAT-free imports could ultimately be cheaper than local supplies with inflated prices, thereby negatively impacting the local economy beyond the extractive industries.

Another option would be to allow mining companies to defer VAT on imported goods. Deferral would involve customs not charging VAT when releasing the goods, but firms would account for the VAT in their next tax return, with a copy of the return sent to customs. When accounting for VAT, firms declare the VAT that customs would have charged and deduct the amount of VAT as if charged by customs. For extractive firms, this deduction tends to be equal to the VAT declared; the net VAT would be zero and no refunds emerge.

This option, however, is also not perfect. VAT deferral may also result in potential import bias; since domestic VAT is not deferred, firms may prefer imported goods to avoid the inconvenience of VAT refunds. The only way to remove this import bias is to pay refunds immediately, which takes us back to square one.

So, while there are policy options available, this report recommends that the Government look for technical solutions, and increased administrative capability, to address the refunds problem.

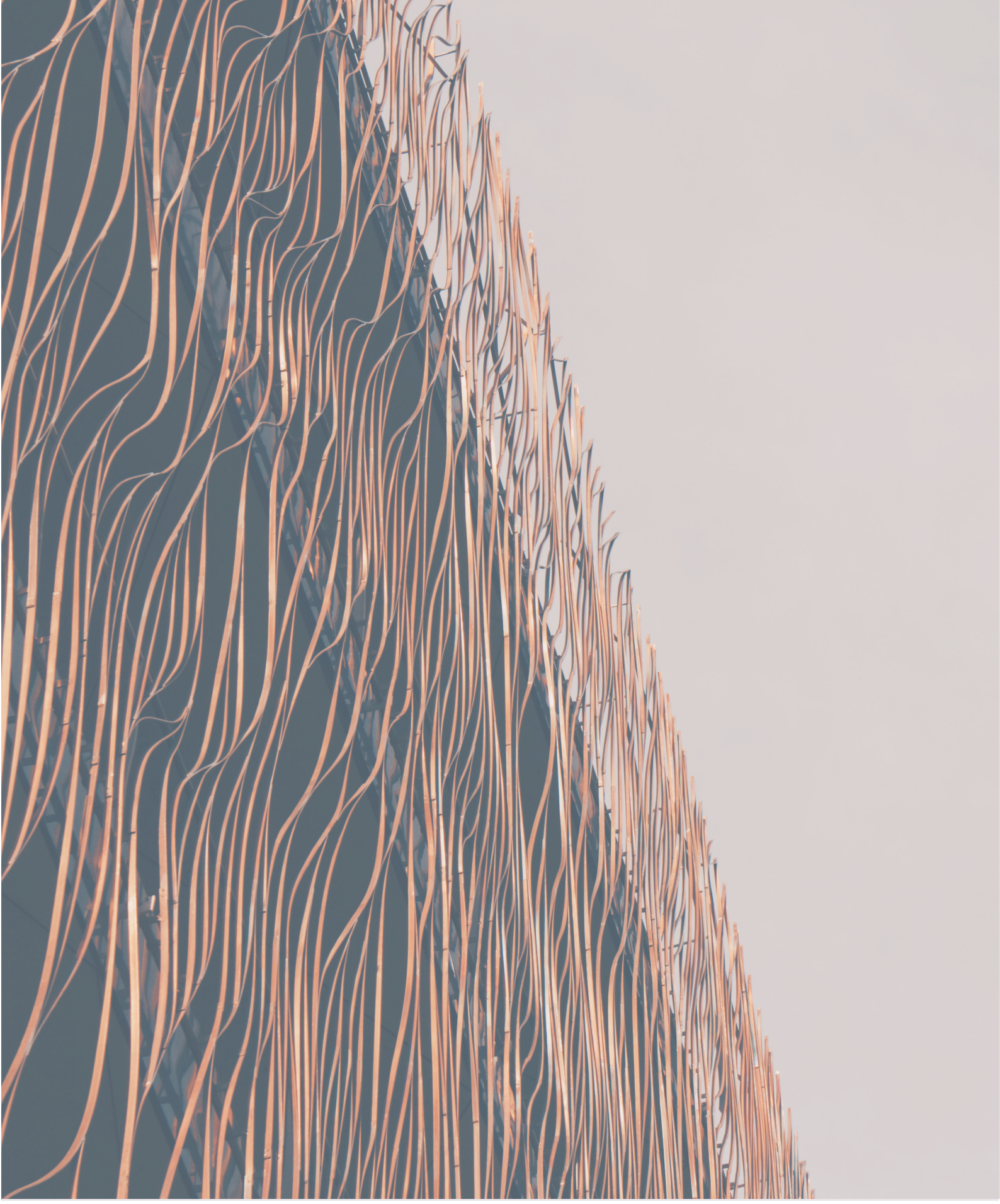
9.4. TECHNICAL SOLUTIONS

The Zambia Revenue Authority (ZRA) should consider adopting an invoice matching software solution, similar to that employed by Rwanda and other countries, to help manage the refund process. This would dramatically speed up administration, and by enhancing the natural self-regulating benefits of VAT, aid the task of enforcement and decreased levels of fraudulent VAT claims.

Secondly, a VAT refund forecasting and monitoring system is vital to help the Government with its own cash flow planning. This would allow for the accurate estimation of the percentage of VAT the Government is likely to need to refund, based upon the data of prior patterns of VAT collection. A specified percentage of daily VAT collection would then be transferred to a dedicated VAT refund account at the Bank of Zambia. Enough money would therefore have been set aside to cover the refunds, and ring-fenced from Government's other financial commitments.

Whatever the eventual solution opted for, it is vital that Zambia's business community be included in the planning from the outset. As this report shows, when fiscal policy is made in isolation from industry, the economic impact is often not fully understood.

The likely dire economic impact of the proposed Sales Tax is now understood, albeit late in the day. The Government of Zambia must act to spare Zambia from the potential consequences.



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