

## JCTR Vision

A Society where faith promotes Justice for all in all spheres of life, especially for the poor.

The Centre attempts to realize its vision through research, education, consultancy and advocacy on social and economic issues.

It is the Centre's belief that resources must be mobilized in a more equitable and efficient manner for national development.

This is achievable only if all people pay their share of taxes to government coffers and the level of understanding of the tax system has a bearing on that. It is the objective of this leaflet to demystify tax thereby enhance compliance.



## Economic Equity and Development Programme

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## Taxation of Rental Income in Zambia



**Jesuit Centre for Theological Reflection**  
"Promoting faith and Justice"

## What is rental income?

Rental income is simply any income that is derived from letting out a property such as a house. If one owns a house and decides to let it out, any income realized thereof is what is referred to as rental income.

### Is Rental Income Taxable

According to the Income Tax Act, all rental income is taxable as long as the source is deemed to be within Zambia and Zambia Revenue Authority (ZRA) is mandated to collect tax on such income.

### What if the income from which the house was built or bought was taxed?

Rental income from such a property is still taxable. Further more, it should be noted that sale proceeds of a house is also subject to tax even though it is taxed at a different rate and under a different tax (property transfer tax). Otherwise all incomes arising from letting out a house regardless of the circumstances under which the house was acquired is taxable.

### How is Rental Income Taxed ?

If the annual rental income is less than K200 million ( revised to K800 million from January 2013), the land lord is supposed to pay turnover tax at the rate of 3% on the gross rental income. This can be paid on a monthly or quarterly basis as rental income is received. This can be agreed upon with ZRA.

However, if the annual turnover is above K200 million (or K800 million starting January 2013), gross rent (i.e. before deducting withholding tax) is reduced by allowable deductions such as repairs, house insurance, land rates etc and the balance is added together with any other income of the taxpayer and subjected to tax at the obtaining income tax.

### What is withholding tax on rental income?

This is the tax that the tenant withholds from the gross rent before paying the landlord at the rate of 15%. The tenant then remits the withholding tax to ZRA. The tenant in this case acts as the tax agent,



### Is the Land Lord required to pay further tax if he/ she pays withholding tax on rental income?

Many landlords regard the net rent received after deducting withholding tax (WHT) as the net of tax. And therefore not subject to any further tax. This is not correct because withholding tax on rent is not final tax. At the end of the charge year, the landlord will be required to submit a re-

turn declaring all sources of income including rental income. The final tax payable by the landlord will only be determined through an assessment that will take into account the withholding tax already paid by the tenant.

### Who pays withholding tax; the landlord or the tenant?

It is the Landlord who bears the burden of withholding tax and not the tenant. The tenant is only responsible for deducting and remitting withholding tax to ZRA. The tenant should not therefore use his or her own money to pay withholding tax in addition to rentals paid to the landlord. The tenant is just used as a tax agent for transparency's sake. If the landlord was allowed to receive the whole rental income and then pay tax on it later, he/ she may under declare rental income to avoid tax. Thus the income tax law mandates the tenant to withhold 15% from the rental payment and remit to ZRA before paying the landlord. It is therefore the landlord who ultimately pays withholding tax.

### Are there penalties for failure to withhold tax on rental income to the tenant?

There are serious penalties under the provisions of the income tax act for failing to comply with withholding tax provisions. Under the Income Tax Act, any person found guilty of such an offence may be liable to a fine not exceeding one million kwacha or imprisonment for a term not exceeding 12 months or to both.