



To ensure that there is equity in bearing the tax burden. The tax burden in Zambia is borne largely by about 500, 000 workers in the formal sector. There is need to ensure that equity prevails where all contribute to the tax net equally according to what each one earns.

If properly taxed the sector has got potential to contribute significantly to the national treasury. There are over 3,000,000 workers in the informal sector; administering appropriate taxes to this group can boost the tax net and add to the national treasury.

### Measures To Enhance Informal Sector Taxation

Collecting correct amount of tax is about having the right information; that is right information about business size, locations, bank details, nature of business, which would ensure that appropriate taxes are administered.

In the same vein, tax avoidance by some firms in the informal sector is attributed to lack of information about; the procedure for tax payment, incentives for tax compliance and limited information on the importance of paying taxes

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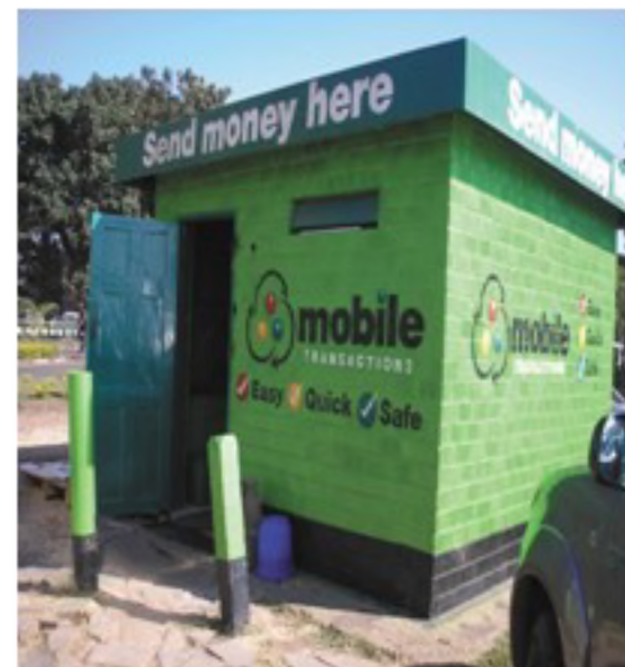
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## Domestic Resource Mobilization for Sustainable development



### Informal Sector Taxation in Zambia



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### What is the Informal Sector

There is no standard agreed upon single definition of the informal sector, however, the informal sector refers to that part of an economy that is not taxed, monitored or included in any Gross National Product (GNP). However, this does not include criminal activities, because though the informal activities are not monitored or taxed, they are not criminal in nature.

In the Zambian context, all those economic activities that are not regulated and taxed are in the informal sector and mostly include; Small and Medium Enterprises (SMEs) that have the following characteristics; small labor force of wage workers or non-wage workers, do not keep accounting records or have poor records and majority operate at subsistence level.

### Basic Facts about Zambia's Informal Sector

- Zambia's informal sector has been growing since the mid 90's after the privatisation programme which saw a lot of formally registered firms close.
- A large proportion of the informal sector about 70% is involved in agriculture, Retail and Wholesale trading 21%, Manufacturing 3%, and Hotels food and beverage 2%. (Zambia Business Survey).

- Peasant farmers dominate SMEs in the agriculture sector
- Many people in the informal sector find it easy to operate in retail and wholesale trade because the returns are realized within a short period of time
- Low incomes and poor access to information has stimulated the growth of the informal sector
- Most informal economic activities are not banked or insured

### Debate on Informal Sector Taxation in Zambia

There has been a lot of debate on informal sector taxation. On one side the argument is that if activities in the informal sector are taxed appropriately, the sector is capable of contributing adequately to the national treasury, while on the other side, taxing the activities in the sector might harm the innovations and creativity of the SMEs.

### Current Taxes in the Informal Sector

- **Turn over tax:**  
Turnover Tax is levied on the total sales of the company or individuals at the rate of 3%. This is applicable to firms or individuals that have an annual turnover of ZMK200 million and below
- **Presumptive tax on minibuses/taxis:** Is levied on all unincorporated transport operators. The rates are based on the sitting capacity as shown below.

Sitting Capacity	Tax (Per year)	Tax (Per day)
64-seater and above	K7,200,000	K19,700
50- 63-seater	K6,000,000	K16,400
36-49-seater	K4,800,000	K13,200
22-35-seater	K3,600,000	K10,000
18-21-seater	K2,400,000	K6,600
12-17-seater	K1,200,000	K3,300
Below 12-seater (including Taxis)	K 600,000	K1,600

- **Base tax:**  
Base Tax is aimed at collecting taxes from the marketeers. It is currently pegged at K500 per day for all those trading in markets
- **Advance Income Tax (AIT)**  
Lastly, the country also has for the last three years implemented the advance income tax. The advance income tax is specifically targeted at the cross border traders and it is levied at 6 percent. It is a tax charged on all imports of unregistered or partially compliant with value exceeding US \$500 (only applicable to goods for personal consumption. All commercial importers do not qualify for this relief).

The tax is designed in such a way that the individuals are given a leeway to claim the tax if they file in their annual returns or to consider it as a final tax