

From the Team

February 2024

Zambia – Amendments to Tax Statuses

Section 14 of the Income Tax Act describes a source-based system for the taxation of personal income. This means the same tax rates apply to Zambian and non-Zambian residents on personal income from a source within Zambia. Practice Note No. 2/98 introduced withholding taxes on non-resident contractors. Withholding taxes are not considered a payroll item. This tax status will therefore be removed.

Click [here](#) to view the Practice Note No. 2/98.

Article 28 of the Income Tax Act grants fiscal privileges to Diplomats in accordance with international laws. Subsequently, they are exempt from paying employees' tax or contributing to social security. This tax status will therefore be removed.

The Zambia Revenue Authority 2021 Employment Guide states that the term 'part-time' has a special meaning for PAYE purposes. Where an employee obtains other employment, the second and any subsequent employments are considered 'part-time'. The significance of part-time employment is that tax is to be deducted at the highest individual marginal rate (37% for 2024).

Click this [link](#) to view the Income Tax Act.

How Does It Work?

The following tax statuses will no longer be available for selection:

- Foreign Diplomat [obsolete/do not use]
- Non-Resident Contractor [obsolete/do not use]

The following tax statuses have been added:

- Fixed Rate
- Part Time (Multiple) Employment

Tax Statuses: [obsolete/do not use]

- When adding an employee, the removed tax statuses will no longer be available to select. It will therefore be hidden on screen, when applying APIs and when uploading via bulk actions.
- Existing employees linked to these removed tax statuses, will display blank in the tax status field. However, the tax calculation and reports will still apply the tax status in the database. When the user updates the screen, they will need to select a new status from the available list.
- When accessing the information via APIs and bulk upload, the tax status of the employees linked to the removed tax statuses, will still display. However, when attempting to upload, an error will be returned, since the value does not exist.

Tax Status: Fixed Rate

- This tax status has been added to accommodate scenarios where an advised percentage or amount needs to be applied to the annualised regular income.
- Selecting this tax status will prompt the user to specify a percentage or an amount.
- If a percentage is advised, it will be applied to the annualised regular income. If applicable, the disabled tax credit will be taken into consideration.
- If an amount is advised, it will be returned on the payslip as Pay As You Earn (PAYE).

Part Time (Multiple) Employment:

- Selecting this tax status will apply the highest marginal rate to the annualised regular income.
- If applicable, the disabled tax credit should not be taken into consideration. An employee on this tax status, should therefore not be linked to a disability in the field, Disability Type, on the Basic Profile Screen.

Paymaster impact

[obsolete/do not use] Tax Statuses

- All tax statuses indicated as [obsolete/do not use] will still be supported during the upcoming tax year (1 January 2024 – 31 December 2024).
- These tax statuses will be made redundant from 1 January 2025.

New Tax Statuses

- If the average tax method is used and an employee's tax status is changed in the middle of the tax year, a tax recalculation will take place.
- If the newly selected tax status should be applicable from a specific date, terminate the employee's record and add a new tax record.
- Should statutory contributions not be applicable to an employee, exemption note components may be activated on the employee's Recurring Payroll Components screen to prevent the statutory contribution from calculating.

Customer action

- Validate APIs if necessary.
- Existing employees linked to an [obsolete (do not use)] tax status should be converted to any of the available tax statuses preferably before processing payroll for February.