

TRANSFER PRICING UPDATE

Key Developments & Immediate Actions

Zambia's transfer pricing environment continues to evolve, with recent developments pointing to a more focused and substance-driven approach by the Zambia Revenue Authority (ZRA). The practical implications of the September 2025 Nestlé case are now evident in ongoing audits, particularly in the areas of burden of proof, functional characterisation and the level of supporting evidence expected.

At the same time, specific arrangements; such as interest-free intercompany loans are attracting heightened scrutiny, reinforcing the need for clear commercial justification and robust documentation. As the 21 June compliance deadline approaches, taxpayers should ensure that their transfer pricing positions are not only compliant in form, but capable of withstanding detailed review in practice.

1 | The Nestlé Zambia Transfer Pricing Case – A Shift in Enforcement Tone

The 2025 Nestlé decision continues to shape the ZRA's audit approach, with a clear move toward substance-driven transfer pricing enforcement.

- Increased scrutiny on functional characterisation (especially distributors vs. full-risk entities)
- Acceptance of aggregation approaches where transactions are sufficiently interconnected
- Heightened focus on loss-making entities and persistent low profitability
- Challenges to comparability, particularly use of external benchmarks
- Expanded audit scope to prior years, with taxpayers expected to support historical positions even where documentation was not contemporaneously prepared (pre 2018)
- Clear emphasis on the burden of proof resting with the taxpayer, requiring demonstrable evidence of both the transaction and its arm's length nature

Implication:

*Transfer pricing is no longer a documentation exercise; it is now a **defence of commercial reality**, requiring alignment between legal form, financial outcomes, and operational substance. Taxpayers must ensure that positions are not only technically supportable, but evidentially defensible across multiple years, with clear alignment between legal form, financial outcomes, and operational substance.*

2 | Intensified ZRA Audit Activity – A More Forensic Approach

Recent audits indicate a shift toward deep-dive, evidence-led reviews, with ZRA requesting:

- Detailed support for management services (benefits test + evidence of receipt)
- Full cost base validation and allocation methodologies
- Transaction-by-transaction testing, rather than high-level analysis
- Multi-year data, including historical audit trails and correspondence

Observed Trend:

Audits are increasingly iterative and discussion-driven, rather than checklist-based, placing pressure on taxpayers to demonstrate real-time defensibility.

3 | 0% Interest and Low Interest Loans Under Scrutiny

Intercompany financing arrangements, particularly interest-free (0%) loans, are a key audit focus. Tax authorities increasingly scrutinise these arrangements, not only focusing on the interest rate applied but also asking:

- Would an independent lender provide funds on these terms?
- Does the borrower have the financial capacity to repay?
- Should the loan be treated as debt at all or recharacterised as equity?

0% loans are **unlikely** to be considered arm's length without strong commercial justification

Implication:

Even where group policy permits interest-free funding, taxpayers must support the position through robust economic analysis and documentation.

4 | 21 June 2026 Deadline – Transfer Pricing Compliance Pressure

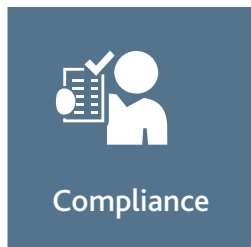
The upcoming 21 June Income Tax Return deadline places immediate pressure on taxpayers to ensure:

- Detailed support for management services (benefits test + evidence of receipt)
- Full cost base validation and allocation methodologies
- Transaction-by-transaction testing, rather than high-level analysis
- Multi-year data, including historical audit trails and correspondence

Risk Area:

Many taxpayers are technically compliant but not audit-ready, particularly where inconsistencies exist between the tax return, financial data, and transfer pricing documentation, or where documentation does not reflect current operating realities.

WHAT SHOULD YOU DO?



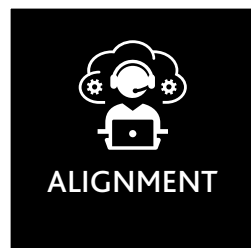
Assess your TP compliance position

Review group structure and local arrangements to confirm that all filing, notification, and documentation requirements are met from a Zambian perspective.



Identify and address key risk areas

Evaluate transactions that may trigger adjustments or penalties, with particular focus on financial transactions, management services, and loss-making positions.



Ensure consistency and strengthen documentation.

Align tax returns, financial statements, and TP documentation, and ensure all positions are supported by robust evidence and commercial rationale.



Implement ongoing compliance and governance

Track deadlines and filings while maintaining a structured approach to ensure TP policies and documentation remain current and audit-ready.

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