BDO

Zambia Income Tax Updates 2026

Key Legislative Changes

Income Tax Updates 2026

The latest Income Tax updates affecting Zambian Entities

Effective 1 January 2026

Parliament enacted a wide-ranging set of tax amendments in December 2025, reshaping income tax, VAT, customs, property transfers, digital transactions, and tax administration. The changes strengthen enforcement, expand turnover-based taxation, and materially affect cash-flow, compliance, and structuring decisions across multiple sectors.

What this Alert Covers

This Alert summarises Income Tax changes only, effective 1 January 2026, based strictly on Act No. 17 of 2025. It highlights who is affected and the practical actions to take

The 2026 tax changes reward scale discipline and early planning, and penalise complexity, delay, and weak compliance.

Context & commencement

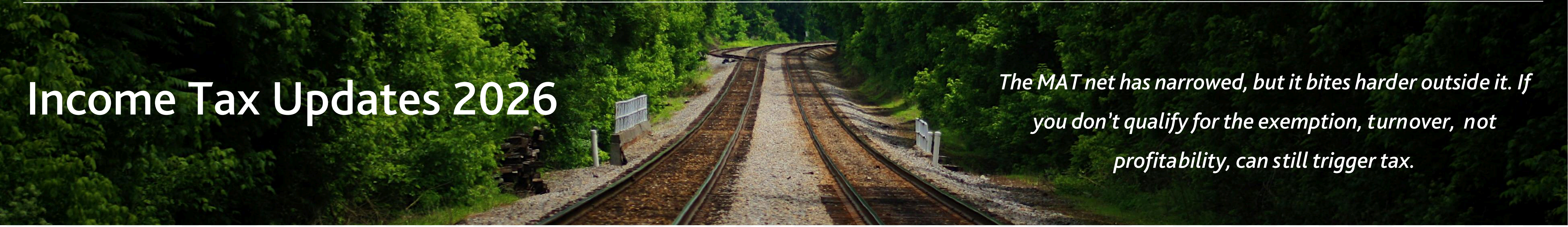
The Income Tax (Amendment) (No. 2) Act, 2025 (Act No. 17 of 2025) was enacted on 30 December 2025 and came into operation on 1 January 2026. The amendments introduce targeted reliefs and constraints for specific sectors (notably railway PPP SPVs), refine turnover and compliance rules, and tighten enforcement provisions, requiring immediate review by affected taxpayers.

What's changing (at a glance)

- Minimum Alternative Tax (MAT) exclusions updated for presumptive/turnover taxpayers and railway PPP SPVs (first 12 years).
- Interest deductibility capped and loss utilisation restricted for railway sector SPVs.
- Turnover/standard assessment rules refreshed, including PSV seating thresholds and small-scale mining.
- USD functional currency rules etended for mineral processing.
- Voluntary disclosure relief introduced: no penalties where errors are disclosed before detection.
- Schedules and rates updated, including turnover tax bands and sector-specific provisions.
- Interest deductibility rules (30% EBITDA) on expiry of carried forward amounts remain in place.

The first step to tax compliance is knowledge. Understanding what has changed, and how those changes interact with your business, systems, and cash flow, is what allows organisations to move from reactive compliance to informed, controlled decision-making.

Kafumu Mbewe
Associate Director - Tax



Income Tax Updates 2026

The MAT net has narrowed, but it bites harder outside it. If you don't qualify for the exemption, turnover, not profitability, can still trigger tax.

Legislative Changes	*Implications / Practical Impact*
MAT exclusions updated – replacement of s14A(5) MAT will **not** apply to: • persons or partnerships liable to presumptive tax or turnover tax; or • a railway sector **SPV** for the first twelve years of operation of a **PPP** project.	• Small and taxpayers on turnover tax are fully excluded from **MAT** exposure. • Railway **PPP SPV**s benefit from a significant early-stage tax relief during the capital-intensive phase of operations. • **MAT** modelling should exclude qualifying entities entirely for the applicable periods. Implications for taxpayers that do not qualify for the MAT exemption • **MAT** exposure remains fully applicable for all other persons and partnerships that are neither under presumptive/ turnover tax nor qualifying railway **PPP SPV**s. • Low-margin or loss-making businesses may face a tax liability based on turnover rather than profitability, increasing effective tax costs. • Cash-flow planning becomes critical, as **MAT** may be payable even where taxable profits are minimal or negative. • Tax projections and budgeting models should explicitly test **MAT** outcomes alongside normal income tax to identify potential top-up exposure

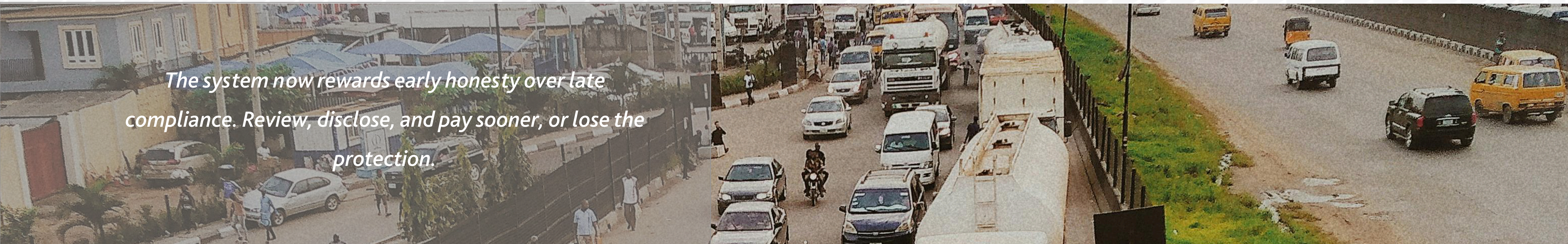
Legislative Changes	*Implications / Practical Impact*
Railway sector SPV – interest deduction limitation Deduction for gross interest expense capped at **70%** of tax **EBITDA** per charge year; excess interest carried forward.	• Highly leveraged projects may face deferred interest deductions. • Financing structures and debt levels should be reassessed to manage disallowances. • Interest carry forwards will affect medium-term effective tax rates rather than eliminating deductions outright.
Railway sector SPV – loss utilisation restriction Losses deductible only against **70%** of income from the same source; excess losses carried forward but limited to **12 subsequent charge years**	• Loss recovery is both restricted and time-limited, increasing the risk of stranded losses. • Project financial models should be updated to reflect constrained loss absorption. • Early profitability becomes more critical within the **12-year window.**
Deduction for employing a person with disability Deduction amount under s43D(2) increased from **K2,000** to **K2,500**	• Marginal relief for qualifying businesses. • Annual tax computations should be updated to reflect the revised amount.

Legislative Changes	*Implications / Practical Impact*
USD functional currency for mineral processing Books may be kept in **USD** where **≥75% of gross income** is earned in foreign exchange from outside Zambia, subject to Commissioner-General approval (Extended to include mineral processing).	• Reduction on foreign exchange mismatches for export-oriented mining operations. • Eligibility must be demonstrable and acceptable to the Commissioner-General. • Practical administration may depend on ZRA guidance.
Presumptive tax exclusion Public Service Vehicles (PSV) with a capacity of 50 seats and above shall not be required to account for presumptive tax.	• Larger passenger transport operators fall outside the PSV presumptive regime. • Operators must reassess their applicable income tax or turnover tax treatment.
Late payment penalty Reduction of late payment penalty from **5%** to **0.5**% per month or part thereof on unpaid turnover tax.	• Stronger incentive on payment discipline and cash-flow planning. • This adjustment is meant to motivate compliance in the Micro, Small, and Medium enterprises.

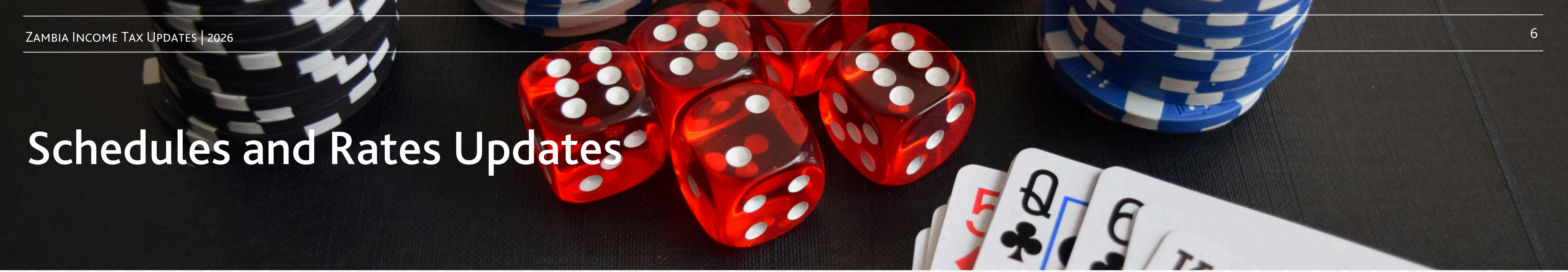
Legislative Changes	*Implications / Practical Impact*
Artisanal and small-scale mining – turnover tax Mining licence holders carrying out artisanal mining or small-scale mining with annual turnover of **K5,000,000** or less to pay turnover tax under Ninth Schedule Part IV.	• Simplifies compliance for small-scale miners by removing profit-based taxation. • Tax payable becomes directly linked to turnover rather than margins. • Turnover tax rate is 5%.
Exchange of information – confidentiality tightened Information obtained by the ZRA from another jurisdiction will be handled confidentially under the same laws of that jurisdiction.	• Reinforces confidentiality of taxpayer information exchanged internationally. • Cross-border disclosures will be governed strictly by treaty terms.

Legislative Changes	Implications / Practical Impact
Permanent establishment anti-fragmentation rule Combined activities of related enterprises may create a PE where not preparatory or auxiliary.	• Increases PE exposure for multinational groups with fragmented operations in Zambia. • Group operating models should be reviewed holistically rather than entity-by-entity.
AIT - Remittance reporting threshold clarified Applies to transactions above USD 2,000 or Kwacha equivalent, regardless of the method of transfer (previously limited to transactions conducted through commercial banaks only).	• Broader scope of remittances subject to reporting and control. • Systems should be configured to flag qualifying transactions..
Voluntary disclosure relief – new s91A No penalty where errors are voluntarily disclosed before detection.	• Encourages proactive tax risk reviews and self-correction. • Provides a clear pathway to penalty mitigation.

Legislative Changes	Implications / Practical Impact
Exemption Schedule – collective investment schemes Exemption for an approved collective investment scheme applies only to the extent income is distributed to participants.	• Undistributed income within collective investment schemes may now be subject to tax. • Fund managers should review distribution policies and timing to preserve exemption benefits. • Investors may experience changes in after-tax returns depending on distribution practices.
Exemption Schedule – inclusion of private funds Private funds added as an exempt category.	• Provides greater certainty on the income tax treatment of private fund structures. • Fund sponsors should confirm that structures meet the definition and qualifying conditions of a private fund.
Turnover tax exemption band increased from **K12,000** to **K30,000**. Letting of property (rental tax), exemption band increased from **K12,000** to **K30,000**.	• Provides relief for micro-businesses while maintaining a simplified regime for small enterprises. • Small landlords benefit from reduced rates at lower turnover levels. • Property owners should reassess whether the turnover-based regime remains appropriate as rental income grows.



The system now rewards early honesty over late compliance. Review, disclose, and pay sooner, or lose the protection.



Schedules and Rates Updates

The Act also introduces a series of structural updates to the Second Schedule, Ninth Schedule, and Charging Schedule, affecting the tax treatment of investment vehicles, turnover-based taxpayers, public service vehicles, betting and gaming operators, and railway sector PPP special purpose vehicles. These changes refine exemptions, adjust rates, and formalise sector-specific tax regimes.

Ninth Schedule Part I – public service vehicle (PSV) taxes

Revised fixed annual taxes based on seating capacity.

Type of Vehicle (Seating Capacity)	*Amount of Tax per vehicle (per annum)*
36 – 49-seater	K10,368
22 – 35-seater	K7,776
18 – 21 seater	K5,184
12 – 17 seater	K2,592
Below 12 seater (including taxis)	K1,296

Type of Game	*Monthly Tax Rate or Monthly tax Amount*
Casino Games (Brick and Mortar)	K5,000 per table
Lottery Winning (Brick and Mortar)	15% of net Proceeds
Betting (Brick and Mortar)	15 percent of gross takings
Gaming Machines	K500 per machine

Legislative Changes	*Implications / Practical Impact*
Charging Schedule – railway sector PPP SPVs Introduction of phased income tax rates over the life of a PPP project, starting at 0% in early years and increasing in later phases. • Year 1 to year 5 – 0% • Year 6 to Year 15 – 10% • Year 16 to Year 25 – 12% • Year 26 to Year 28 – 30%	• Provides long-term tax certainty and early-phase relief for capital-intensive railway projects. • Financial models must incorporate rate escalation over the concession period. • Later-stage tax exposure should be planned for well in advance.

CONTACT US: BDO Zambia

The Gallery Office Park

Frost Building

Lagos Road, Rhodes Park

Lusaka, Zambia

Tel:+260 211 250222

Email: BDOTP@bdo.co.zm

www.bdo.co.zm