ZAMBIA CHAMBER OF COMMERCE AND INDUSTRY

A Comparative Study of Corporate Tax Rate in Sub Saharan Africa

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This is a comparative tax study of 15 Sub Saharan African countries. The study was undertaken in order to compare the corporate tax rate applicable in Zambia against other countries in Sub Saharan region. The study employed cross-sectional analysis and found that, Zambia is one of the countries with high corporate taxes in Sub Saharan Africa. This affects Zambia's competitiveness in the region. The study recommends that Government should commence the process of reducing Corporate Tax from 35% to 25% at a rate of 2.5% per annum.

INTRODUCTION

Taxation is an avenue through which Governments raise revenue to finance public expenditure and pay back debt. While taxation is good for a country on one hand, on the other hand, high tax rates make a country uncompetitive environment for both local and foreign businesses. High tax rates affect investment and cause lower job creation and slow wage growth. Galindo and Pombo (2011) in their study found out that corporate taxes have a negative impact on investment and productivity and that the impact is bigger on larger firms which are most likely to be formal and to pay taxes. These results suggest that tax policies may have large consequences for the business environment as well as for economic development, since large firms tend to concentrate most of an economy's employment, and leads to the discussion of potential trade-offs between collecting revenue and long term growth.

In Zambia, there has been concern from the business community that the Corporate Tax Rate of 35% is high making the country's goods and services uncompetitive in the Sub Saharan region. It also stifles investments, encourages tax evasion and tax avoidance thereby resulting into reduced revenue to the Government treasury. It is against this background that the Zambia Chamber of Commerce and Industry (ZACCI) undertook a Comparative study to compare Zambia's Corporate Tax Rate against other countries and establish whether the Corporate Tax Rate is high.

METHODOLOGY

The study used cross-sectional analysis of 15 countries in Sub Saharan Africa using data from Price WaterhouseCoopers World Tax Summaries.

RESULTS

The study revealed that Zambia and Congo DR are the countries with the highest corporate taxes in Sub Saharan Africa at 35%. Mauritius has the lowest Corporate Tax Rate at 15% followed by Botswana at 22%. The 35% Corporate Tax makes Zambian goods uncompetitive as compared to other goods coming from other countries.

Figure 1: Comparison of Corporate Tax Rates as at end of 2017

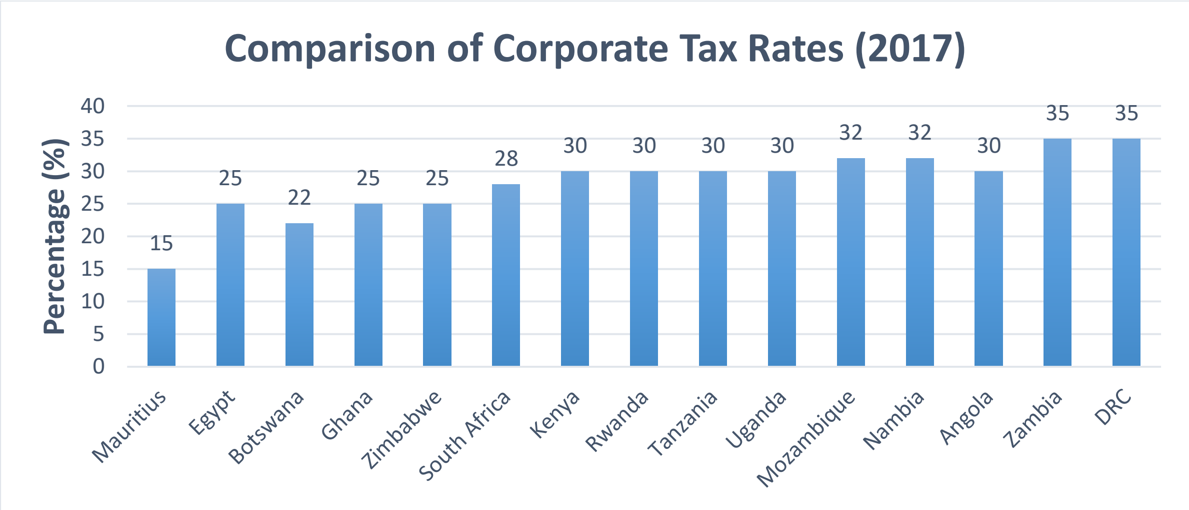
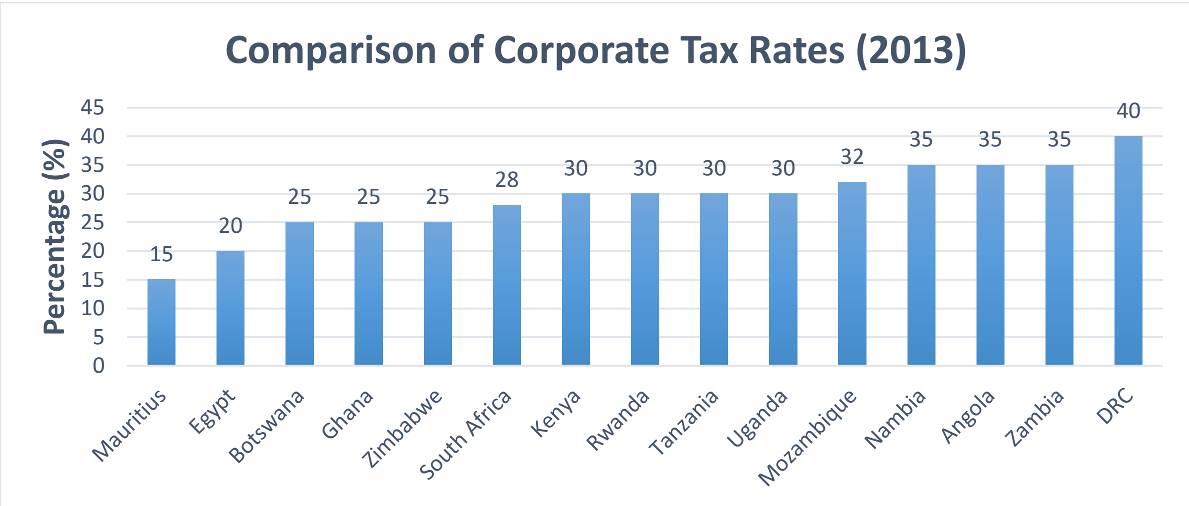


Figure 2: Comparison of Corporate Tax Rate as at end of 2013



The study further reviews that DRC has reduced by 5% from 40% in 2013 to 35% in 2017, while Namibia (from 35% in 2013 to 32% in 2017) and Botswana (from 25% in 2013 to 22% in 2017) have both reduced by 3%.

CONCLUSION

The study compared Corporate Tax Rates among 15 countries in Sub Saharan Africa. The main findings suggest that the 35% Corporate Tax Rate in Zambia is high compared to other countries in the region. This confirms the business community's claims that Corporate Tax Rate is high in Zambia.

RECOMMENDATIONS

- Government to commence the process of reducing Corporate Tax Rate from 35% to 25% at a rate of 2.5% per annum.

EXPECTED IMPACT OF REDUCING CORPORATE TAX RATE

- Minimal loss of Government revenue in the short term.
- In the long term, the savings which will be made from the reduction in the Corporate Tax Rate are likely to be reinvested in the economy and thus stimulate growth resulting in more productive jobs being created. This will create more revenue for Government.
- The reduction in Corporate Tax Rate will give Zambia a competitive advantage in the region in attracting foreign direct investment. Increased FDI means increased taxes and tax revenue to Government.
- Increased tax compliance.

REFERENCES

Galindo A and Pombo C (2011). Corporate taxation, investment and productivity: A firm level estimation. Inter-American Development Bank, Washington, DC, USA.

Price WaterHouseCoopers, World Tax Summaries. http://taxsummaries.pwc.com