

Zambia's Tax Administration Response to the BEPS Questionnaire regarding Country experiences with base erosion and profit shifting issues

Developing countries are invited to provide feedback by answering the following questions. Feedback (and any questions about the feedback requested) should be sent to taxffdoffice@un.org. The deadline for responses is 8 August 2014.

1. How does base erosion and profit shifting affect your country?

It affects the country significantly through reduced tax revenue payments, increase in the tax burden on easy to collect taxes and creates an atmosphere of unfairness as some companies are paying more taxes than others. This has the potential of negatively affecting voluntary compliance.

2. If you are affected by base erosion and profit shifting, what are the most common practices or structures used in your country or region, and the responses to them?

The most common practices and structures include;

- **Tax treaty abuse especially through treaty shopping,**
- **Profit shifting through high interest, royalty, management and consultancy fee deductions,**
- **The avoidance of Permanent Establishment creation by tailoring activities and contracts in such a way that the activities cannot be deemed/create a Permanent Establishment.**
- **Base erosion through creation of new companies to enjoy special tax incentives that are given in selected sectors on new investments.**

The responses include the following:

- **Capacity enhancement through creation of a transfer pricing unit and capacity building of staff in international taxation.**
- **Strengthening of Transfer pricing legislation as well as introduction of transfer pricing documentation rules.**
- **Re-negotiation of old tax treaties that are been used as vehicles of BEPS and ensuring that new tax treaties have appropriate anti-treaty abuse.**
- **strengthening of domestic anti-abuse legislation**
- **Rationalising of tax treaty incentives and scaling down on tax holidays.**

- 3.

The main obstacle is availability of such comparative data and determining precisely whether there is transfer pricing that has been involved. A lack of a fully functional exchange of information unit also makes access to appropriate information difficult as well as the proper analysis of any information received.

The Subcommittee have identified a number of actions in the Action Plan that impact on taxation in the country where the income is earned (the source country), as opposed to taxation in the country in which the MNE is headquartered (the residence countoune MNEortee MN.5(9.)tm2(alp(sid))6.ve.3(p)-prtetounw(c)-46(c)-6earned cfu2018ouncwarfuned.3

