



Botswana Tax & Budget Summary 2019/2020

4 February 2019



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2018/19 Budget Speech Highlights

The Honorable Minister of Finance and Economic Development, Mr O K Matambo presented the 2019/2020 Budget Proposals to the National Assembly on the 4th of February 2019. He emphasised that the focus of the budget proposals is to “**consolidate development gains for further economic development**”. Government will pursue the following major policy initiatives during the coming financial year:

- Economic consolidation;
- Social development; and
- Maintaining governance and security.

Budget speech highlights

- Growth rates forecast are 4.5%, 4.2% and 4.8% in 2018, 2019 and 2020, respectively.
- The actual budget out-turn for 2017/18 was a deficit of P1.98 billion.
- The revised budget forecast for 2018/2019 is a deficit of P6.96 billion compared to the initial estimated deficit of P3.59 billion.
- The projected 2019/20 budget deficit is estimated at P7.34 billion representing minus 3.5% of GDP.

Fiscal legislation highlights

The Minister made the following announcements in relation to fiscal legislation :

- The recently amended IFSC tax regime was assessed by the OECD in January 2019 and found not to be harmful.
- The Income Tax Act was amended to introduce transfer pricing and ‘thin capitalisation’ provisions.
- A Bill to amend the Transfer Duty Act will be presented to Parliament in March 2019.
- The Capital Transfer Tax Act will be amended to align it to the Transfer Duty Act.

Income Tax - Salient Features

Business Taxable Income

- Income from, or deemed to be from a source within Botswana is taxable in Botswana.
- Income from related party transactions should be consistent with the arm's length principle.
- Income accruing from different businesses is deemed to accrue from one business except capital gains and income from farming and mining.
- Farming, mining and prospecting income/losses and capital gains/losses are ascertained separately.
- Normal business expenses wholly, exclusively and necessarily incurred in the production of assessable income are allowed as deductions.
- With effect from 1 July 2019 deduction of interest expenditure incurred by companies (other than banking and insurance companies) is restricted to 30% of tax EBIDTA. Any excess interest disallowed is carried forward for 10 years in the case of a mining company or for 3 years in all other cases.
- Deduction of expenditure relating to interest, royalties management or consultancy fees paid or payable to non-residents is allowed in the year in which the related withholding tax is paid over to BURS.
- Specific deductions include capital allowances, expenditure on lease improvements, bad debt provisions, contributions to an approved mine rehabilitation fund.
- Assessed losses from business can be carried forward for no more than five years, except for mining and prospecting losses, which can be carried forward indefinitely.
- Capital losses can be carried forward for one year only.
- Special provisions apply to International Financial Services Centre ('IFSC') companies, approved manufacturing and mining businesses.

Employment Income

- Includes salaries, wages, terminal payments, directors and other fees, bonuses, commissions, allowances and the value of taxable benefits.
- Employment income from, or deemed to be from, a source within Botswana is taxable in Botswana.
- Employment income, including the value of benefits in kind, is subject to monthly withholding tax (PAYE).

Exemptions and Tax Free Benefits for Individuals

- The value of contractual travel benefits for employees and their families.
- Medical fund contributions and medical attention paid for by the employer.
- Contractual terminal gratuities payable to expatriate employees are exempt to the extent of one-third.
- Bank and building society interest of P7,800 per annum, for resident individuals.
- Severance pay and certain gratuities payable to citizen employees are exempt to the extent of one-third. Investment of such payments directly into an approved pension or retirement annuity fund results in 100% exemption.
- Retrenchment package: one third or P36,000 whichever is greater is exempt.

Income Tax - Salient Features

Benefits Valuation

Housing	<ul style="list-style-type: none"> • 10% of municipal valuation or • 8% of current capital valuation, (P 250 × floor area)
Use of employer's furniture	10% of the excess over P 15 000 of the cost to the employer
Loans	The difference between the concessionary rate and the rate prescribed by the Commissioner General as at 1 July of each tax year
Other benefits	Such as school fees and utilities: cost to the employer or market value, whichever is the greater

Motor Vehicle Scale of Values

Cost of Vehicle			Value of Benefit		Fuel Cost Adjustment	
1	-	50 000	2 500		1 000	
50 001	-	100 000	5 000		2 000	
100 001	-	150 000	7 500		3 000	
150 001	-	200 000	10 000		4 000	
200 001	-	and over	10 000 +15% on the excess of P 200 000		5 000	maximum

Income Tax - Salient Features

Capital Allowances

Straight Line <i>(The rates of straight line annual allowances on plant or machinery range between 10% and 25% as fixed by the Commissioner General)</i>	Rate
Heavy plant or machinery used in construction	25%
Motor vehicles and aircraft (for passenger motor vehicles, limited to expenditure of P 175 000)	25%
Plant or machinery used directly in manufacturing or production	25%
Other plant or machinery including farming equipment	15%
Computer hardware	25%
Computer software - off the shelf	100%
Furniture and fittings including soft furnishings	10%

Statutory Straight Line Allowances:	Rate
Industrial buildings - initial allowance	25%
- annual allowances	2.5%
Commercial buildings - annual allowances	2.5%
Farm buildings, improvements, water supplies and other farm capital works	100%

Income Tax - Corporate Taxation

Corporate tax rates – resident company

	Basic
Approved manufacturing taxable income	15%
Capital gains	22%
Foreign dividends	15%
Mining taxable income (excluding diamonds)	22%-55%
Other taxable income	22%
Accredited Innovation Hub business taxable income	15%
IFSC company – approved services income	15%
IFSC – other taxable income	22%
SPEDU business – first 5 years	5%
SPEDU business – after the first 5 years	10%

Corporate tax rate - non-resident company

Standard rate	30%
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Self Assessment Tax (SAT)

Corporate tax is payable via the self-assessment system in quarterly SAT instalments on a financial year basis. Companies with annual income tax liabilities of less than P 50 000 may elect to make one payment within 4 months of end of the financial year.

Filing deadline

The Income Tax Return must be filed within four months of the company's financial year end.

Income Tax - Individuals Taxation

Residents – Business and Employment Income Rates

Taxable Income (P)			Tax Payable				
P		P	P				P
0	-	36 000	0				
36 001	-	72 000	0	+	5%	over	36 000
72 001	-	108 000	1 800	+	12.5%	over	72 000
108 001	-	144 000	6 300	+	18.75%	over	108 000
144 001		and over	13 050	+	25%	over	144 000

Non-Residents – Business and Employment Income Rates

Taxable Income			Tax Payable				
P		P	P				P
0	-	72 000			5%	of each Pula	
72 001	-	108 000	3 600	+	12.5%	over	72 000
108 001	-	144 000	8 100	+	18.75%	over	108 000
144 001		and over	14 850	+	25%	over	144 000

Foreign Dividends

On gross amount received	15%
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Income Tax - Individuals Taxation

Capital Gains Tax Rates

Taxable Income			Tax Payable				
0	-	18 000	0				
18 001	-	72 000	0	+	5%	over	18 000
72 001	-	108 000	2 700	+	12.5%	over	72 000
108 001	-	144 000	7 200	+	18.75%	over	108 000
144 001		and over	13 950	+	25%	over	144 000

SAT and filing deadline

The individual income tax return must be filed within three months of the end of the tax year. SAT is optional for individual taxpayers.

Taxation of other entities

Unapproved Pension and Provident Funds on Investment Income

Tax rate	7.5%
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Deceased Estates and Testamentary Trusts

Taxable Income			Tax Payable				
0	-	72 000			5%	of each Pula	
72 001	-	108 000	3 600	+	12.5%	over	72 000
108 001	-	144 000	8 100	+	18.75%	over	108 000
144 001		and over	14 850	+	25%	over	144 000

Withholding Taxes

Withholding tax obligations

- Employers are required to withhold tax (PAYE) at the prescribed rates from all payments of remuneration and issue an annual certificate of tax withheld to the employee.
- Payers of dividends, interest, management or consultancy fees (technical fees), entertainment fees, commercial royalties or construction contract related payments, to a non-resident, are required to withhold tax at the statutory rate and issue a certificate of tax withheld to the recipient. The obligation to withhold may be varied or removed by an applicable double taxation avoidance agreement.
- Payers of dividends, interest, rent, construction contract related payments, commission or brokerage fees, to a resident, are required to withhold tax at the statutory rate and issue a certificate of tax withheld to the recipient.
- Any person who makes payment for the purchase of livestock for slaughter or feeding for slaughter is required to withhold tax from such payments at the rate of 4%.
- Tax withheld should be paid over the Commissioner General within 15 days of the month following that of making payment to the payee.
- PAYE and Other Withholding Tax Annual returns must be filed within one month of the end of the tax year.

Exemptions from withholding tax

The following payments are exempt from withholding tax:

- Payments of dividends, commercial royalties, management or consultancy fees or interest, by an IFSC company or an exempt Collective Investment Undertaking (CIU) to a non-resident person, IFSC company or another CIU.
- Payments of interest to a financial institution, banking company or IFSC company receiving such interest in the ordinary course of business.
- Payments in respect of accommodation in a hotel, motel, lodge or guesthouse.
- Rental payments and commission payments amounting to less than P36,000 in any tax year.
- Payments to an exempt entity.

Withholding Tax - Statutory and DTAA rates

Statutory and Double Taxation Agreement Withholding Tax Rates

	Construction contracts payments ⁽¹⁾	Dividends ⁽⁹⁾	Interest ⁽²⁾	Commercial Royalties ⁽²⁾	Management or Consultancy fees ⁽²⁾	Payments to Entertainers and Sports persons	Rent	Commission / brokerage fees	Livestock purchases	Surplus mine rehabilitation funds
	Statutory rates									
Residents	3%	7.5%	10% ⁽⁵⁾	-	-	-	5% ⁽⁶⁾	10% ⁽⁷⁾	4% ⁽¹⁰⁾	10%
Non-Residents	3%	7.5%	15%	15%	15%	10%	5% ⁽⁸⁾	10% ⁽⁸⁾	4% ⁽¹⁰⁾	10%
Treaty Countries	Treaty rates									
Barbados	3%	5% / 7.5%	10%	10%	10%	10%	5%	-	-	-
China	3%	5%	7.5%	7.5%	7.5% ⁽¹¹⁾	10%	5%	-	-	-
France	3%	5% / 7.5% ⁽⁴⁾	10%	10%	7.5%	10%	5%	-	-	-
India	3%	7.5%	10%	10%	10%	10%	5%	-	-	-
Ireland	3%	5%	7.5%	5%/7.5%	7.5%	10%	5%	-	-	-
Mauritius	3%	5% / 7.5% ⁽⁴⁾	12%	12.5%	15%	10%	5%	-	-	-
Mozambique	3%	7.5%	10%	10%	10%	10%	5%	-	-	-

Withholding Tax - Statutory and DTAA rates

Statutory and Double Taxation Agreement Withholding Tax Rates - Continued

	Construction contracts payments ⁽¹⁾	Dividends ⁽⁹⁾	Interest ⁽²⁾	Commercial Royalties ⁽²⁾	Management or Consultancy fees ⁽²⁾	Payments to Entertainers and Sports persons	Rent	Commission / brokerage fees	Livestock purchases	Surplus mine rehabilitation funds
Treaty Countries	Treaty rates									
Namibia	3%	7.5%	10%	10%	15%	10%	5%	-	-	-
Russia	3%	5% / 7.5% ⁽⁴⁾	10%	10%	10%	10%	5%	-	-	-
Seychelles	3%	5% / 7.5%	7.5%	10%	10%	10%	5%	-	-	-
South Africa	3%	7.5%	10%	10%	10%	10%	5%	-	-	-
Swaziland	3%	7.5%	10%	10%	10%	10%	5%	-	-	-
Sweden	3%	5% ⁽³⁾	7.5% ⁽³⁾	10% ⁽³⁾	15%	10%	5%	-	-	-
United Kingdom	3%	5% / 7.5% ⁽⁴⁾	10%	10%	7.5%	10%	5%	-	-	-
Zambia	3%	5% / 7% ⁽⁴⁾	10%	10%	10%	10%	5%	-	-	-
Zimbabwe	3%	5% / 7.5% ⁽⁴⁾	10%	10%	10%	10%	5%	-	-	-

Withholding Tax - Statutory and DTAA rates continued

Notes - Statutory and Double Taxation Agreement Withholding Tax Rates

- (1) Provisional tax - subject to DTA provisions.
- (2) Payments by an IFSC company or exempt CIU to a non-resident, IFSC company or CIU are not subject to withholding tax. Payments to a financial institution, banking company or IFSC company receiving interest in the ordinary course of business are exempt.
- (3) Lower rates agreed between Botswana and any other state apply.
- (4) 5% applies where beneficial owner is a company with at least 25% shareholding.
- (5) Interest payments, to residents, in excess of P1,950 per quarter are subject to 10% withholding tax. This is a final tax where the interest is paid by banks and building societies to individuals. In all other cases the tax is credited against the final tax payable on assessment.
- (6) Provisional tax credited on assessment. Applicable where payments amount to at least P36,000 per tax year. Excludes non-business payments by individuals and payments to exempt persons.
- (7) For residents this is a provisional tax credited on assessment and is applicable only if payments amount to at least P36,000 per tax year.
- (8) Provisional tax applicable only on Botswana-sourced income.
- (9) Payments by an IFSC company or exempt CIU to a non-resident, another IFSC company or to a CIU are exempt from withholding tax.
- (10) Final tax where livestock sales are not in the ordinary course of business.
- (11) Rate applies to technical and consultancy fees only

DTA's still to come into force

Progress towards concluding Double Taxation Avoidance Agreements with the following States is at an advanced stage:

- Belgium
- Czech Republic
- Lesotho
- Luxembourg
- Malawi
- Malta
- Portugal
- Serbia and Montenegro
- Singapore
- Tanzania

Capital Transfer Tax

Donee - Company

Rate of tax payable on aggregate taxable value - 12.5%

Donee - Other than company

Taxable Income			Tax Payable				
0	-	100 000	0.00	+	2%		
100 001	-	300 000	2 000.00	+	3%	over	100 000
300 001	-	500 000	8 000.00	+	4%	over	300 000
500 001		and over	16 000.00	+	5%	over	500 000

Transfer Duty

Immovable Property

Urban property transfers (waived where VAT is payable)	5%
Agricultural land transfers – citizens (waived where VAT is payable)	5%
Agricultural land transfers - non-citizens (duty equivalent to VAT payable is waived)	30%
The first P 200 000 of the purchase price in the case of a citizen of Botswana is exempt from transfer duty	

Value Added Tax

Standard rate	12%
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- VAT is imposed comprehensively on an end-user basis at the rate of 12% on standard rated supplies. Certain specified supplies are either zero rated or exempt from VAT.
- Registration is mandatory where 12 months taxable supplies exceed or are expected to exceed:
 - P 500 000 or more (up to 22 January 2015)
 - P 1 000 000 or more (from 23 January 2015)
- Threshold for voluntary registration set at P500 000 turnover from taxable supplies with effect from 23 January 2015.
- VAT is payable by the importer of services not utilised in the making of taxable supplies
- Input tax includes:
 - Transfer duty payable under the Transfer Duty Act
 - Any tax deemed to have been paid in respect of supplies of second hand goods
- Input tax claims should be made within the following time limits:
 - For those who file monthly returns, within a period of four months
 - For those who file returns every two months, within two tax periods
 - For tax paid in respect of imports, within two tax periods
- Late VAT returns penalty - the greater of P50 per day or 10% per month or part thereof of the tax due or a penalty not exceeding P5,000 for a late NIL or refund return.
- Late payment of VAT - compound interest at 1.5% per month or part thereof on both outstanding tax, penalties and interest charged.
- VAT refunds – Compound interest at 1% per month or part of a month is payable if the refund is not made within two calendar months of the due date of the return (1 month for IFSC companies, approved manufacturers and exporters)

Value Added Tax - Continued

Zero-Rated Supplies

- Exports of goods and services
- International transport services
- Supplies of going concerns
- Sorghum, maize meal, millet, wheat, sugar and flour for human consumption
- Fertilizers for farming purposes, some pesticides
- Supplies to the Head of State
- First 5,000ltrs per month of water supplied to a residential dwelling by the Water Utilities Corporation (with exceptions)

The following supplies were zero rated with effect from 23 January 2015:

- Brown bread, bread flour
- Vegetables and fruits in their natural state
- Uncooked samp and rice
- Milk – as specified

Exempt Supplies

- Certain prescription drugs and condoms
- Residential accommodation
- Education at approved institutions
- Public medical services
- Non-fee based financial services
- Passenger transport (excluding the transportation of tourists)
- Donations and grants
- Farm implements
- Tractors used for agricultural purposes (with effect from 23 January 2015)

Filing Deadline

The VAT Tax returns must be filed on or before the 25th of the month following the end of the tax period.

KPMG Botswana - Tax Services

Tax represents a significant risk to organisations both from a financial cost as well as increased financial exposures through non-compliance with laws and regulations. Tax authorities are increasingly conducting audits and investigations into high risk and this calls for a more efficient and effective management of the tax compliance process. Harsh penalties, arising from audit and investigation findings, negatively impact the entity's cash flow and consequently the shareholder funds.

Companies need to:

- Be aware of the tax risks/opportunities associated with business decisions in order to plan and manage the tax cost;
- Ensure that they are compliant with tax obligations in order to minimise or avoid the risk of penalties; and
- Keep abreast with changes in the tax laws in order to enhance effective tax cost management and compliance.

At KPMG, we believe that effective management of tax issues is integral to your core business.

Our team of professionals together with our network of KPMG professionals around the world can assist you cut through the complexities of tax through the provision of practical advice.

KPMG Botswana provides the following tax services:

- Assistance with management of the tax compliance process.
- Transfer pricing (TP) consultancy;
 - Tailor-made training;
 - Preparation of TP documentation;
 - Proposals for advance pricing agreements; and
 - Assistance during BURS audits.
- Tax advisory services on various transactions including: -
 - International taxation (cross-border transactions);
 - Inbound investments and investment structures;
 - Group restructures including amalgamations;
 - International (Global Mobility Services) and local executive services;
 - Tax health checks and tax due diligence.

For further information about our services please contact our professionals.

KPMG Botswana - Tax Services Key Contacts

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