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Botswana Tax and Budget Summary 2016/2017

22 February 2016



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2016 Budget Speech Highlights

The Honorable Minister of Finance and Development Planning, Mr O K Matambo presented the 2016/17 Budget Proposals to the National Assembly on the 1st of February 2016.

The 2016/17 budget which coincides with the end of the 10th National Development Plan (NDP10) is also a transitional budget from Vision 2016 to Vision 2036.

The budget allocations address the following key thematic areas:

- Investing in infrastructure development;
- Creating employment opportunities;
- Strengthening human capital;
- Enhancing national security; and
- Strengthening local governance.

Budget speech highlights

- The domestic growth rate for 2015 has been revised downwards from 2.6% to 1%.
- Growth rates for 2016 and 2017 are forecast at 4.2% and 4.3%, respectively.
- Actual budget surplus for 2014/15 was P5.34 billion compared to the estimated revised budget surplus of P280.83 million.
- The 2015/16 revised budget deficit of P4.2 billion compared to the initial estimated surplus of P1.23 billion.
- Projected 2016/17 budget deficit is estimated at P6.05 billion representing 3.8% of GDP.

Budget speech highlights continued

- Foreign exchange reserves as at 31 December 2015 were P84.9 billion (representing 19 months import cover) compared to P79 billion in December 2014.
- Year-on-year inflation rate was 3.1% in December 2015 compared to 3.8 % in December 2014.

Income Tax (Amendment) Act, 2015

Income Tax (Amendment) Act, 2015

Below is a summary of the amendments to the Income Tax Act brought about by the Income Tax (Amendment) Act, 2015 which was gazetted on 30 October 2015. The amendments take effect as from 1 February 2016, in terms of Statutory Instrument 10 of 2016.

Farming

- The term 'farming operations' was amended to read "The keeping of livestock, the undertaking of agricultural activities and pastoral farming including the rearing of dairy cattle for milk and dairy products, stud farming, poultry farming, the rearing of sheep for wool and pelts, irrigated agriculture and horticulture".
- Income arising from specified farming operations accruing to a resident individual is exempt from tax provided certain conditions are met.
- The election provisions for resident individual small scale farmers were repealed.
- Indefinite carry forward of farming assessed losses was removed. From 1 February 2016, farming assessed losses can only be carried forward for 5 years.
- The provisions allowing set-off by individuals of farming losses against up to 50% of chargeable income from other sources were repealed.
- Carry-back of farming assessed losses was abolished.
- Payments in respect of the purchase of livestock for slaughter or for feeding for slaughter are subject to 4% withholding tax. This is a final tax for farmers not carrying on the business of farming.

Botswana Meat Commission

- The definition of dividend is amended to include payments made by the Botswana Meat Commission in terms of Section 18 of the Botswana Meat Commission Act to suppliers of livestock. Such payments shall be subject to withholding tax at 7.5%.
- The Botswana Meat Commission is exempt from income tax.

Other

- The Commissioner General is now empowered to
 - refund tax overpaid (without having to wait for vote allocation from the Ministry); and
 - set-off any refund due against any tax, duty, levy, interest or penalty payable under any of the revenue laws that he is responsible for.
- The list of tax deductible donations is expanded to include donations to Government in respect of the provision of health facilities or to any health institution recommended by the Minister or any other beneficiary as may be prescribed by the Minister.
- Corporate bodies wholly owned by Government and prescribed by the Minister are exempt from tax. Previously government owned entities, except those specified as liable to tax in the Act, were exempt from tax.

Income Tax – Salient Features

Business Taxable Income

- Income from, or deemed to be from a source within Botswana is taxable in Botswana
- Income accruing from different businesses is deemed to accrue from one business except capital gains and income from farming and mining
- Special provisions allow for the set-off by individuals of farming losses against other income to the extent of 50% of other source chargeable income
- 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
- 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, lease improvements, bad debt provisions, contributions to an approved mine rehabilitation fund, approved citizen training expenditure that is not refundable by BOTA and approved pension fund contributions
- Assessed losses from business can be carried forward for no more than five years, except for farming, 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
- Summary of the Income Tax (Amendment) Act, 2015 -

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%

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

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.

Income Tax – 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

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	Rent	Commission / brokerage fees	Surplus mine rehabilitation funds
	Statutory rates								
Residents	3%	7.5%	10% ⁽⁵⁾	-	-	-	5% ⁽⁶⁾	10% ⁽⁷⁾	10%
Non-Residents	3%	7.5%	15%	15%	15%	10%	5% ⁽⁸⁾	10% ⁽⁸⁾	10%
Treaty Countries	Treaty rates								
Barbados	3%	5%/7.5%	10%	10%	10%	10%	5%	-	-
France	3%	5%/7.5% ⁽⁴⁾	10%	10%	7.5%	10%	5%	-	-
India	3%	7.5%	10%	10%	10%	10%	5%	-	-
Lesotho	3%	7.5%	10%	10%	10%	10%	5%	-	-
Mauritius	3%	5%/7.5% ⁽⁴⁾	12%	12.5%	15%	10%	5%	-	-
Mozambique	3%	7.5%	10%	10%	10%	10%	5%	-	-
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%	-	-
Zimbabwe	3%	5%/7.5% ⁽⁴⁾	10%	10%	10%	10%	5%	-	-

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) The DTA with China was gazetted on 23 November 2012 however the date of entry into force is still to be published.

Filing deadline – withholding tax returns

PAYE and Other Withholding Tax Annual Returns must be filed within one month of the end of the tax year

Capital Transfer Tax

Donee company

Rate of tax payable on aggregate taxable value - 12.5%

Donee other than a 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

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 P 50 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)

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.

Tax is a cost to the business which, if not managed efficiently and effectively can represent a significant drain on the company's funds. This, coupled with the increased focus by the tax authorities on investigations, 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
- 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.

For further information about our services please contact our professionals.

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