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Botswana Tax and Budget Summary 2013/2014

4 February 2013



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The Honorable Minister of Finance and Development Planning, Mr O K Matambo presented the Budget proposals for the 2013/14 year to the National Assembly on the 4th of February 2013. Highlights of the budget speech are as follows: -

General

- Real GDP growth for the 4 quarters to September 2012 was 7.7% compared to 7.3% for the same period in 2011;
- Actual budget deficit for 2011/12 was P181 million as compared to the estimated budget deficit of P3.76bn;
- Revised estimated 2012/13 budget surplus amounts to P835 million compared to P1.15bn in the initial estimate;
- Projected 2013/14 budget surplus is estimated at P779 million representing 0.6% of the forecast GDP;
- Foreign exchange reserves as at 31 December 2012 were P57.7bn (representing 13 months import cover), compared to P60.3bn in December 2011;
- Year-on-year inflation rate was 7.4% in December 2012 compared to 9.2% in December 2011;
- The Bank of Botswana rate was maintained at 9.5%;
- 570 companies were issued with Economic Diversification Drive (EDD) certificates as part of Government's drive to enhance economic diversification. Government purchases from local manufacturers and service providers to increase to P2.5bn by end of 2012/13;
- The Competition Authority is collaborating with various government arms in order to promote fairer business competition and prevent price fixing, market allocation and bid-rigging.

Fiscal

The Income Tax Act has been amended to:

- Enhance transparency and exchange of information between Botswana and other tax jurisdictions;
- Broaden the requirement to keep accounts and records to include every person liable to pay or collect taxes;
- Standardise interest chargeable under the Act at 1.5% per month compounded;
- Provide that the 10% withholding tax on bank and building society interest, in excess of the exempt P7,800 per annum, payable to resident individuals shall be a final tax;
- Eliminate the 2020 sunset clause in the IFSC legislation.

The Value Added Tax Act has been amended to:

- Increase the maximum penalty chargeable for failure to file a "Nil" or "Refund" VAT return from zero of P5,000;
- Zero-rate the first 5,000ltrs per month of water supplied by the Water Utilities Corporation to a residential dwelling;
- Expand the definition of capital goods to include mining capital expenditure;
- Increase accompanied passenger's baggage threshold to UA1,200 from UA500.

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 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 benefits
- Employment income from, or deemed to be from a source within Botswana is taxable in Botswana
- All employment income, including benefits in kind, is subject to monthly withholding tax (PAYE)

Exemption 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

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 interest at concessionary rate and prime lending rate announced by Bank of Botswana on 1 July of the 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

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%

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.

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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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.

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

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	Surplus mine rehabilitation funds
Statutory rates	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%	10%	-
France	3%	5%/7.5% ⁽⁴⁾	10%	10%	7.5%	10%	5%	7.5%	-
India	3%	7.5%	10%	10%	10%	10%	5%	10%	-
Lesotho	3%	7.5%	10%	10%	10%	10%	5%	10%	-
Mauritius	3%	5%/7.5% ⁽⁴⁾	12%	12.5%	15%	10%	5%	15%	-
Namibia	3%	7.5%	10%	10%	15%	10%	5%	15%	-
Russia	3%	5%/7.5% ⁽⁴⁾	10%	10%	10%	10%	5%	10%	-
Seychelles	3%	5%/7.5%	7.5%	10%	10%	10%	5%	10%	-
South Africa	3%	7.5%	10%	10%	10%	10%	5%	10%	-
Swaziland	3%	7.5%	10%	10%	10%	10%	5%	10%	-
Sweden	3%	5% ⁽³⁾	7.5% ⁽³⁾	10% ⁽³⁾	15%	10%	5%	15%	-
United Kingdom	3%	5%/7.5% ⁽⁴⁾	10%	10%	7.5%	10%	5%	7.5%	-
Zimbabwe	3%	5%/7.5% ⁽⁴⁾	10%	10%	10%	10%	5%	10%	-

(See notes on next slide)

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 received on deposits with financial institutions / bonds / BoBC's in excess of P1,950 per quarter will be subject to 10% withholding tax which can be off-set against final tax liability. This is a final tax for individuals resident in Botswana where the interest is paid by banks and building societies.
- (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	

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 turnover is expected to be P 500 000 or more
- 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
- Late payment of VAT - compound interest at 1.5% per month or part thereof on both outstanding tax, penalties and interest charged
- VAT refunds - 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 and farming tractors
- 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)

Exempt Supplies

- 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

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 cashflow 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 and local executive services
- Tax health checks.

For further information about our services please contact our professionals.

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