

## **CAN PASSENGER TRANSPORTERS CHARGE VAT? By Jonathan Hore**

Tom is the new financial guru at a Gaborone-based bus company, Tsamaya Transport and he is really enjoying his first week on this new and rewarding job. Tom's first assignment is to review whether the company has been applying the correct VAT treatment to its various transportation services. This instruction has come straight from the Managing Director, who read a very technical article on passenger transportation in the same newspaper that you are reading today. Yes, this one you have in your hands. The MD did not understand the technical jargon that was being used but all he remembers is that there was so much use of the phrase 'exempt from VAT' and he just got so interested in how that affects this flourishing business. Well, keep on reading my friend and I will simplify VAT for passenger transporters for you. In this article, words importing the masculine shall be deemed to include the feminine.

### **LOCAL PASSENGER TRANSPORTATION IS EXEMPT**

The VAT Act states that the local transportation of passengers by road or rail is exempt from VAT. What that means is that a person who solely transports passengers within the borders of Botswana cannot charge VAT, i.e. he charges his fare and does not even think of VAT. So, technically, the transport fares are lower than if VAT was charged. Let's say that passengers pay P 50 from Tsamaya to Gaborone and VAT was chargeable at the standard rate of 12%, that would result in an additional cost of P6 to the fare, bringing it to P56. So, the fact that VAT is not charged makes the fares relatively cheaper, on face-value.

This means that Tsamaya Transport cannot charge VAT when it transports passengers within the borders of Botswana. This also applies to other passenger transporters such as taxis, Botswana Railways, combis and shuttles. Most of those traders cannot even register for VAT as their business activities are exempt from VAT. It does not matter how much money they make; the issue is that they are offering an exempt supply and cannot register for VAT.

So, what this means is that if Tsamaya Transport only conducts local passenger transportation, they will suffer all the VAT that they incur on purchase of the buses, repairs, insurance etc. In other words, if they get charged VAT by Hollard Insurance on bus insurance, that VAT is their cost as they cannot claim back due to the fact that they cannot register for VAT. So, in other words, the transporters incur more costs compared to their counterparts who may be transporting goods as the latter can register for VAT and then claim any VAT incurred.

### **WHAT ABOUT TRANSPORTATION BY AIR?**

Well, the local transportation of passengers by air is not exempt. This means that all airlines should register for VAT upon reaching the P1m turnover threshold, whether they conduct local or international transportation of passengers. The main reason behind subjecting the air transportation to VAT is that those who fly have relatively higher incomes and can afford to bear VAT.

### **WHAT ABOUT CROSS-BORDER TRANSPORTATION?**

You asked a good question my dear. Cross-border passenger transportation is chargeable to VAT but at the rate of 0%. That is what is technically called international transportation services and it encompasses scenarios where a transporter ferries passengers from Botswana to say Zimbabwe or from Zimbabwe to Botswana. It also includes passenger transportation from South Africa, past Botswana to Zimbabwe. If Tsamaya also offers such

services, then it can register only that part of its business for VAT purposes. But that complicates the VAT issues of the transporter as it cannot claim any input VAT that relates directly to the exempt services, being the local transportation of passengers. This will inevitably result in the business having to compute a certain formula which it will use to split any VAT it incurs between local transportation (exempt) and international transportation (taxable). That would make Tsamaya Transport technically a mixed supplier in that it supplies both taxable and exempt supplies. I shall, for the sake of simplicity, not get into detail regarding another tax that mixed suppliers pay when they import services from non-residents, being VAT on imported services.

### **BACK TO TSAMAYA**

Well, I am sure Tom is now ready to speak 'Tax' in English to his boss. So, he will obviously start by telling him that local passenger transportation within Botswana's borders is exempt and as such, no VAT can be charged on such services. However, any international transport services across borders are chargeable to VAT at 0%. And should it happen that Tsamaya ventures into both local and international passenger transportation, then they are a complex VAT registrant and certainly need a tax consultant to assist them comply with their VAT. Finally, I can see that the MD now understands what the phrase 'exempt from VAT' means and I am sure that my fella Tom will pass his probation in just 1 month. But of course, he should not forget that he dug this information from none other than Yours Truly.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him.