

5% SPEDU TAX FINALLY HERE! By Jonathan Hore

Well, I certainly don't want to say that I told you before but it's now official, the SPEDU 5% corporate tax is now with us. I wrote about the plans to introduce this tax a few weeks back but the law was finally effected through Statutory Instrument 19 of 2018 with effect from 16 February 2018. The general corporate tax rate in the country is 22% but that will not be the case with approved businesses which will operate in the SPEDU region as they will only pay tax at 5%. Such businesses will enjoy the greatest tax savings in this country as the new tax rate is currently the lowest.

In case you were wondering what the SPEDU region is; it comprises of the following: Selebi-Phikwe, Mmadinare- Sefhophe, Bobonong, Maunatlala, Lerala as well as neighbouring villages, cattle posts and farms. Throughout this article, words importing the masculine shall be deemed to include the feminine.

THE RATIONALE

The fall of BCL caused undesirable economic effects in the economy but most notably, in the SPEDU region. We learnt that +/-5 000 people lost their jobs and that's a massive number, considering that those ex-employees had dependants who survived off their salaries. So, one thing is certain; the SPEDU economy was under siege and needed an urgent stimulus. Following from the above, approved farming, manufacturing and tourism businesses operating in the SPEDU region will enjoy the reduced tax rate. The new law allows businesses to make great savings of 17%. Believe you me, that's such a massive cut and it will result in businesses making great savings, which they may also use to re-invest in the same area. Just to show you that a 17% tax cut is not a joke, a business which would have paid tax of P22m ends up paying P5m, saving P17m. Trust me, that's a good saving.

MORE ABOUT THE NEW TAX RATE

The new tax regime will see qualifying enterprises being taxed at 5% on their income for the first 5 years of their operations. Thereafter, such entities would be subject to tax at 10%, which would apply for as long as they operate in the region. Technically, this tax cut will have to be accorded to particular entities by the Ministry of Finance and Economic Development (MOFED) through what is called a Development Approval Order. A Development Approval Order is an order that is granted by the ministry reducing one's tax rate after assessing their operations for eligibility. A letter of assessment of the business will first have to be obtained from the Ministry of Investment, Trade and Industry. The benefiting entities would then be officially notified of their approval through a letter from the MOFED, which is copied to BURS.

WHICH BUSINESSES QUALIFY?

The reduced tax rate will be applicable on both existing and new businesses. In fact, for new entities, they will get their approval even before they commence trading, which is a special dispensation as favourable tax rates are usually granted to existing businesses. The businesses should however be operated through Botswana-registered companies. A business which sets up in the SPEDU region but having some operations outside that region needs to get the MOFED to approve those businesses first in order for them to enjoy the concessionary tax rate. Otherwise, income generated from unapproved locations outside the SPEDU region would be subject to tax at 22%.

SO WHAT BENEFITS DOES THIS BRING?

The obvious and predictable result of such a tax cut is that it will attract investment into the SPEDU region and revive the region's economy by creating employment as well as stimulating economic activity. That should to some extent compensate for the losses that came through the closure of BCL. Tax saved through the tax cut may also be re-invested, creating further employment.

THE ANTI-TAX INCENTIVES CAMPAIGN

The OECD, IMF and many NGOs have of late been campaigning against tax cuts, arguing that investors do not consider tax rates as an issue in deciding where to invest. They have also stated that the tax cuts cost economies in tax, which could be used for development. But let's face it, who would not want to get a 17% tax cut? Further, in the case of SPEDU, it's more than just a tax incentive; there is need to improve the livelihood of people, after the catastrophe that struck them. So, these institutions may have nice arguments but those arguments may not have foreseen cases such as the BCL closure.

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