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DO TAX PLANNING WITH YOUR HOUSE: By Jonathan Hore

You might have heard that there is a tax which is charged on the disposal of immovable assets and shares, commonly referred to as Capital Gains Tax (CGT). Well, that is quite true and that may also apply to instances where one sells their house. The taxman wants to share in the capital appreciation that arises on assets that any taxpayer may have held. Usually, the CGT on such assets is realised on disposal. In this article, I want to share with you some tax planning that you can do with your house. I promise you that some of the tips will make a difference in your life; believe me. You need to know that tax planning is arranging your affairs in such a way that you legally pay less tax or nothing at all, as provided by the applicable laws. In this article, words importing the masculine shall be deemed to include the feminine.

WHAT IS CAPITAL GAINS TAX?

Technically, we do not have capital gains tax in Botswana, in the strictest meaning of that phrase. However, this is formally called tax on disposal gains and it is declared as part of income tax, whether the taxpayer is a company or an individual. The tax is chargeable on the capital appreciation of, among others, a house. Capital appreciation refers to the growth in value that happens over time in the affected assets. For example, if a person purchases a house at P0.5m and over years, the same property appreciates to P 3.5m, it means that the house would have realised a capital appreciation of P3m. Tax would then be calculated on that capital gain, after considering some allowances for inflation.

NO CGT ON YOUR HOUSE!

I must be quick to mention that if an individual sells a principal private residence (PPR) that they would have owned for at least 5 years, they do not suffer CGT. On the other hand, if an individual sells PPR 2, they can only enjoy the CGT exemption after 5 years from the date of selling PPR 1. A PPR is generally defined as an individual's main or sole house. This means that if the individual has 1 house, that house becomes their PPR. If the individual has more than 1 house, then their main house is the PPR. Note that there is no requirement for that individual to reinvest into another house, upon disposal. In other words, the individual can sell the house and squander their proceeds. That's where the tax planning comes in!

USE YOUR HOUSE TO FINANCE A BUSINESS

Given the fact that an individual can sell their PPR and not pay CGT, that obviously provides them with an opportunity to plan around that aspect. Instead of financing a business through loans which bring a legal obligation to make repayments, one may sell their house and start a business without being tied to a bank or financier. The experts say about 75% of start-up businesses fail and self-financing your business gives one piece of mind; the business will not have heavy financial burdens.

TRANSFER YOUR HOUSE AS YOU AGE

The moment you notice that you are aging, you can transfer your house either to your spouse or kids as a way of estate planning. One thing you need to know is that the moment you pass on and your house forms part of your estate and ceases to be a PPR. If the house has to be moved to your heirs, the executor should pay CGT to BURS. The complexity with that arrangement is that most deceased estates are left without any cash and talking about paying taxes becomes an additional burden, which is usually not honoured due to lack of funds. So, the ideal tax planning you can do is to transfer ownership whilst you are still alive. Notice though that the transferee may have to pay donations tax, if they are not your spouse. If you have to transfer it to any other person who is not your spouse, you can help them pay donations tax if they do not have the capacity to pay. So, why let your property fall into your deceased estate when you can transfer it during your lifetime?

BEEF UP YOUR PENSION & SIT AT HOME

They always say that pension is meant to keep you afloat financially, after retirement. Well, if you manage to invest in more than 1 house, you may use the proceeds from 1 of the houses to beef up your financial resources on retirement. This will allow you to maintain the lifestyle that you had whilst you were still working. So, you can afford to stay at home and enjoy your retirement, courtesy of tax planning. Don't forget Yours Truly when you are enjoying your millions which don't suffer CGT. I won't deny a mini cooper as payment for this invaluable advice!

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