

## **17% TAX SLASH ON CARDS! SPEDU TO BENEFIT: By Jonathan Hore**

Hold on now! What is this that Yours Truly is trying to say now? Where in the world do people get such massive tax cuts when mineral revenues are declining, amidst global economic growth constraints? I know you didn't expect this but I am not the first one to break this news. It's been there in various media reports. I am however going to add the technical flavour to it and reiterate that there are plans to introduce a 5% corporate tax in the SPEDU region. And this is now at an advanced stage, for your information. Keep reading! Throughout this article, words importing the masculine shall be deemed to include the feminine.

### **WHERE DID THIS ALL START?**

Well, almost everyone now knows that the fall of BCL has caused undesirable economic effects in the economy but most notably, in the SPEDU region. The say +/-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 is under siege and needs a stimulus as soon as is possible. So, it has been mooted that certain enterprises such as farming, manufacturing and mining who set up in the SPEDU region be taxed at 5% on their corporate profits. Well, the general tax rate for corporates is 22% and that represents a 17% tax rate cut. 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. In case you may not know which areas are covered by the SPEDU region, these are Selibi-Phikwe, Mmadinare, Bobonong, Maunatlala and Lerala.

### **TELL US MORE ABOUT THE TAX CUT**

The mooted tax regime is such that qualifying enterprises will be 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 thereafter 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 through what is called a Development Order. A Development Order is an order that is granted by the ministry reducing one's tax rate after assessing their operations for eligibility. The benefiting entity would then be officially notified through a letter, which is copied to BURS. Well, there is nothing which stops the ministry from changing the game with the way the preferential tax rate is conferred.

### **DOES IT APPLY TO NEW PLAYERS ONLY?**

I have been asked that question several times and to be honest, I don't have an answer. The question is whether the tax cut is going to apply to those who are currently operating in SPEDU or only those who will set up operations after the Development Order is in place. For equity, I am of the opinion that the tax cut should apply to both existing and new businesses in the SPEDU region, as long as they meet the set criteria. If it is applied to new businesses only, that will disadvantage the existing ones and there is a likelihood that some businesses may cease operations and register new ones just to benefit from the reduced tax rate.

### **WHEN IS THIS COMING?**

As you may know, this is an issue of the law and it will only apply when the law is promulgated. Technically, it appears that this issue is now at an advanced stage and it

should not surprise you if you hear that the law is out any day from now. Keep watching this space as I will want to be one of the first ones to comment about it.

### **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 business. That should then 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. But the IMF has 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? I beg to differ with the IMF on their views, with due respect though. Let the 17% tax cut come!

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