

BUYING PROPERTY? FIRST READ THIS TAX ARTICLE: By Jonathan Hore

Well, if you are planning on buying an immovable property, you may need a few hints before you sign on the dotted line. And they say never stop learning and that is what I mastered last week. I had a colleague open my eyes when I was facilitating a tax webinar on property taxes. The eye-opener relates to choices citizens have when purchasing property, i.e. whether to buy from a VAT-registrant or from a non-VAT registrant. He just pointed at one avenue which the legislature provided, and everyone automatically saw the tax planning avenue. I will share with you that important aspect in this article as I know you may be getting ready to sign that property purchase deal. In this article, words importing the masculine shall be deemed to include the feminine.

BRIEF ON PROPERTY TAXES

There are various property taxes but I will concentrate on two of them today, being VAT and Transfer Duty. You may know that effective 1 March 2020, citizens can now buy a property and enjoy an exemption on the first P1m, if they have to pay transfer duty. The rate of transfer duty is 5% and that is a tax paid by an acquirer of immovable property such as land, farms and houses. But there is a nice fusion of VAT and transfer duty which then makes it interesting if a citizen gets to know the resultant tax effects.

Let me first state that a citizen does not have to pay transfer duty if they purchase an immovable property from a VAT registrant. VAT registrants charge tax at 12% whilst transfer duty is levied at 5%. Let me repeat and say that citizens are exempt from transfer duty on the first P1m of any purchase! Don't forget that. I know I am getting technical but just stay with me and we will arrive to our destination in a few minutes. Bear in mind that if a property is being sold by a VAT registrant, it is likely to carry VAT in the price. As an example, if a property costs P1m, the VAT registrant will have to charge tax at 12%, making the final purchase price P1.12m. On the other hand, if a citizen purchases the same property from a non-VAT registrant, they do not suffer the 12% VAT but pay transfer duty at 5%. Now, VAT is paid directly to the seller whilst transfer duty is paid straight to BURS.

HOW TAX BILLS SHRINK

With the above background, I am sure I can now get to the point that my colleague pointed out to me. After I had mesmerised him with the above analysis, he said that citizens can pay less tax by simply choosing not to buy property from VAT registrant. In other words, they should buy from individuals or corporates not registered for VAT. That simple choice makes a world of difference and let me break it down for you below.

Assuming that a citizen is acquiring a farm from a VAT registered property developer for P1m, the final price becomes P1.12m, including VAT. Technically, that citizen pays tax amounting to P120 000 which he can't claim as he is not registered for VAT. By the way, VAT is a tax borne by the final consumer. Now, if the same citizen had posed and looked for a non-VAT registrant, he would still have to pay the same P1m to the seller. The seller can't charge any tax as he is not registered for VAT. BURS will make an assessment of the tax and first grant an exemption of the P1m exemption, bringing the tax base to P0.00. In other words, BURS will issue a nil assessment or a letter stating that the transfer can proceed as no tax would be payable.

Now, let's compare these two dudes; the other one went ahead and paid P1.12m including VAT of P0.12m whilst the other only parted with P1m and paid no tax. So, what

differentiated them; knowledge of the provisions of the scenarios where the legislature gives back and when he doesn't.

CONCLUSION

I need not repeat myself but if a citizen purchases an immovable property from a VAT registrant, they part with more money as they suffer VAT, which is a final tax on them. They can't get the tax back unless if registered for VAT. However, if they purchase from a non-VAT registrant, they are likely to pay transfer duty but only after the exemption of the first P1m. In simple, buying from non-VAT registrants gives citizens a tax advantage. If that opened your eyes, say this with me: Tada!

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax Whatsapp group, send me a text on the cell number below.