aupracon TAX SPECIALISTS
Consulting . Training . Compliance

Postal: P O Box 504899, Gaborone
Physical: Office 15, 2nd floor. Plot 50667, Left Block at Medical Mews, Fairgrounds, opp BancABC
Telephone: +267 393 9435 /+267 71 81 58 36
Website: www.aupracontax.co.bw

THESE EXPENSES REDUCE RENTAL TAX: By Jonathan Hore

So many people are of the view that running a property rental business is best done through a company and not as an individual. This explains why many people ask whether they should transfer their immovable properties into their companies to claim tax expenses which they believe cannot be deducted if one runs the business as a sole trader. Well, let me be frank with you and state that this is a fallacy whose source I am not aware of. Let me also state that the assertion that companies are taxed at a lower rate of 22% whilst individuals are taxed at 25% is also not well-founded. Yes, companies are taxed at 22% but most individuals are taxed at an effective tax rate of 22.7% or lower, after considering the tax-exempt amount of P36 000 and the sliding tax rates. So, lets kick out this notion that you will pay less tax through a company than as an individual as it is not 100% true. Further, moving your property into a company may trigger other taxes such as Capital Gains Tax.

Allow me to move on and show you that you can claim rental expenses in your name in the same manner that a company can make such claims. In this article, words importing the masculine shall be deemed to include the feminine.

DEDUCTIBLE EXPENSES

Maybe I should start by stating that anyone who earns rental income, including income from the rental of immovable property is regarded by the Income Tax Act as conducting a business. It then follows that such person is compelled by the same Act to keep books of accounts, basically reflecting the income and expenses incurred. It is therefore important for every rental earner to keep all invoices received for expenses incurred, in case the taxman asks. On another note, a rental earner is not taxed on the gross rentals he earns but on profits, after the deduction of expenses. For example, someone who earns rentals of P200 000 and incurs expenses of P 25 000 will only pay tax on the net of P175 000.

The following are the most common expenses that rental earners can deduct for tax purposes, whether they trade as individuals or companies:

Repairs & maintenance

Almost all rental earners incur repairs and maintenance costs. Repairs are those expenses which restore a property to its former state and they do not usually result in an increase in its value, otherwise they become improvements not deductible for tax. Repairs include expenses such as replacement of damaged doors, repainting, fixing windows, tabs etc. Expenses such as the erection of pavements, initial painting and building a screen wall are improvements and cannot be deducted for tax purposes as they are capital in nature. Further, expenses incurred directly in connection with the acquisition of the property such as mortgage arrangement fees are also capital in nature.

Mortgage interest

If one acquires a property under a mortgage or a through finance lease, the loan interest which is charged in each respective year is tax deductible. For individuals, the tax year runs from 1 July to 30 June. Banks issue statements indicating such interest, at request.

Life insurance

Life insurance which is payable on a monthly basis is tax deductible as well. The bank should be able to provide a schedule of such expenditure. However, insurance on a loan used to improve the property is capital in nature and is not tax deductible.

Tax expenses
Tax compliance costs relating to the rental income are certainly necessary to keep the business compliant with the law and are therefore tax deductible. If any expenses are incurred in maintaining books of accounts, they also rank as tax deductions.

City council rates
Rates paid to the city council are also tax deductible. Note that this is not limited to the amount paid as expenses which are not yet paid can be deducted. What is critical is that the rates must be incurred by 30 June of a particular year.

Legal expenses
Legal expenses relating to issues such as debt collection are tax deductible. However, legal costs linked to the acquisition or disposal of a property are not deductible.

Bank charges
Bank charges levied in an account which is solely used for the business are also tax deductible. The only challenge is that most property owners use their personal accounts for the business, which makes it difficult to determine the business expenses.

Capital allowances
Rental earners can also deduct capital allowances, being a form of depreciation which caters for the gradual reduction in the value of the property. This is determined at 2.5% of the cost of commercial buildings, excluding residential properties whose capital allowances are barred as deductions. Industrial buildings qualify for 27.5% in the first year and 2.5% annual allowances thereafter.

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