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HOUSING BENEFITS, NOT ALLOWANCES, ARE TAX-EFFICIENT: By Jonathan Hore
There are certain practices which have been accepted over time but when analysed from a tax angle, they make very little sense. One such an example is housing allowances offered to employees. Because no-one challenges these arrangements, we find ourselves dancing to the tune of tax-inefficient arrangements simply because the music has been playing for a long time and we are accustomed to it. Let me show you that housing allowances are not tax-efficient. In this article, words importing the masculine shall be deemed to include the feminine.

Housing benefit
A housing allowance is fully subject to PAYE, which means that there is no special tax treatment accorded to the allowances. On the other hand, housing benefits, whilst also subject to tax, are determined using set formula, which generally yield lower tax. But maybe I should explain what a housing benefit is before I expand on the concept. An employee is regarded to have enjoyed a taxable housing benefit if he occupies an employer owned or rented house. The employee enjoys the comfort of such a house at the cost of the employer and is thus taxable on the benefit.

One must note that there are two ways of determining a housing benefit, depending on the location of the property. The annual benefit for houses in towns such as Gaborone and Francistown is determined as 10% of the rateable value provided by the city council in question. If the rateable value is say P 600 000, then the annual benefit is P60 000. Houses located in tribal areas are taxed using the following formula, which yields close to no benefit at all: P 250 x 8% x floor area of the house. The floor area used is only for the built space and not the full plot.

Tax-inefficiency exposed!
To illustrate that housing allowances are not tax efficient, we will assume that an employee earns P40 000 and is paid an additional P6 000 as a housing allowance. We will also assume that the employee rents a 200 square meter house in a tribal area whose rental is P 6 000. That employee will be taxed on P46 000 (P40 000 + P6 000), yielding PAYE of P 9 585.50 and after considering rent of P 6 000, his disposable income will be P 30 412.50.

If that employee requests his employer to take over his lease, the monthly housing benefit will be P 333.33, meaning that his taxable income will be P 40 333.33. The PAYE that such employee pays equals P 8 170.83, which leaves him with disposable income of P 31 829.17. That employee's disposable income is P 1 416.67 higher than if he remained on the housing allowance arrangement. Per annum, that culminates to a saving of P 17 000.04. Now, if that is not tax-efficiency, then maybe I do not know what I am hollabalooing about.

Conclusion
One may argue that they already have a house so this arrangement doesn't apply to them. It's true, it doesn't apply to those who have their own homes but if your house is still on mortgage, you don't own it; so better swallow your pride. Honestly, if you are still paying a mortgage for a house and the employer is flexible to offer you a house which he repairs, pays security for, among others, you may let out the mortgaged house and use both the tax savings as well as the rental amount to clear off the bank's dues. Now, we are talking economics; not really, tax.

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 or know more about our 8 Tax e-books, send me a text on the number below.