

Carbon tax on second-hand vehicles imminent: By Jonathan Hore

The 2021-2022 national budget speech presented by the Minister of Finance & Economic Development, Hon Dr T Matsheka on 1 February 2021 continues to influence tax dialogue in the country. Amongst the proposed changes is the levying of a carbon tax on the importation of second-hand vehicles into the country. I will analyse this proposal and its effects in further detail below. In this article, words importing the masculine shall be deemed to include the feminine.

The Minister's words

Addressing how the 2021 to 2022 national expenditure would be financed, the Minister stated that, 'Government is working on the modalities of imposing a levy on second-hand vehicles imported into Botswana, with the dual objectives of raising revenue and addressing environmental concerns regarding pollution.' Two basic things can be noted from this statement, the first being that a levy is being considered on second-hand vehicles being imported into Botswana. The second one is that this is meant to curb pollution or if it doesn't curb pollution, it will at least increase government revenues. The link of the levy to pollution automatically makes it a carbon tax.

The carbon tax

Carbon taxes are levied on goods or industries which pollute the air. Experts tell us that older vehicles emit more carbon dioxide, leading to negative environmental effects such as global warming. The country imports a lot of second-hand vehicles and these are mostly demanded by low to middle income earners as well as corporates. In fact, most of the vehicles used by small to medium enterprises are imported, mainly from Japan.

Tax structure

The carbon tax may be levied as an ad valorem tax such as 5% of the value of the imported vehicle or a specific tax such as P5 000 per each vehicle. However, it would be expected that vehicles with bigger engines would pay more tax, as is common practice internationally. Details of how the tax will be structured are expected to be pronounced through a legal instrument which will also bring the tax into existence.

Effective date

No further details were provided regarding the date of implementation of the tax. If the proposal sails through, it is likely to take effect from 1 April 2021, which coincides with the statutory fiscal year.

Tax effects

If introduced, second-hand vehicles will be more costly than they currently are. Many middle-income earners and small businesses rely on such vehicles for their day-to-day operations. It is hoped that the levy will not be heavy so as to balance the economy benefits arising from the vehicles with tax revenue generation.

Others have also suggested that the levy be extended to new vehicles as that will lead to government collecting more taxes, especially from the high-income earners who buy such new cars. If that is done, it would be expected that the new vehicles pay less carbon tax as they are known to produce less carbon dioxide as compared to second-hand cars. Others have also suggested that luxury vehicles have a higher VAT rate, as a way of mobilising revenues.

On the other hand, it is not in doubt that BURS will collect more taxes from the carbon tax. Even if a heavy carbon tax is introduced, there are those who cannot afford new vehicles who will still go for second-hand imports. My view is that the carbon tax will not be too heavy and imported second-hand vehicles will therefore still remain affordable, albeit a bit more costly.