

### **Property Building Costs Reduce Rental Tax**

Most people do not know that they can reduce tax payable by the cost they incur in building properties used to earn rent or for any other business usage. This applies to developments made in tribal areas as well as those under state grants.

A number of taxpayers who own properties get it through tribal grants, i.e. grants by land boards situated in tribal areas. Some of them get it from government through state grants in towns, i.e. any area covered by the Township Act such as Gaborone. The government basically gives the lessee the right to erect developments on the land and failure to comply results in forfeiture of the land. Government remains the owner of the land and the lessee owns the developments.

In tax lingo, we then can infer that such developments qualify for what is called lease improvements, covered under section 41 of the Income Tax Act. These allowances technically allow the developer the cost of putting up a structure on the land obtained through tribal or state grants, provided that the premises are used for rental or other business ventures.

The Act allows any person who earns rental income or any other business revenue from a property developed in townships or a village to claim the construction cost over the lesser of the lease period or 25 years. To put things into perspective, we will use an example where a rental earner pockets gross rent of P200 000 a year from a development which cost P3m under a 50year lease. That developer can therefore reduce the P 200 000 by P120 000 every year, the latter being P3m divided by 25years. Instead of paying individual tax of P 24 050, that state grant or tribal land developer pays tax of only P 1 600 per annum, making a whooping tax legal saving of P 22 450 as per the provisions of the Act.

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