

### **New tax exemptions on terminal payments & pensions in Botswana**

Following the commencement of the Retirement Funds Act Number 38 of 2022 (RFA) with effect from 14 October 2022, professional bodies, pension funds as well as the public pleaded with the Ministry of Finance & Economic Development to consider increasing the tax exemptions, in particular on pensions, from the then 33.3% to 50%, to align the Income Tax Act with the RFA. The RFA increased the amount that a pensioner can access from pension entitlements on retirement to 50%, which was well received by the public. The said Act also allowed (for the first time) deferred members of pension funds to access part of their pensions for the purposes of servicing loans and medical bills before retirement. A deferred member is a member of a pension fund who is required to make contributions but who cannot generally access their pensions as they would not have reached retirement age. In this article, words importing the masculine shall be deemed to include the feminine.

Following the aforementioned, the Minister of Finance and Economic Development, Hon P Serame, presented a Bill to Parliament in December 2023 seeking to align the changes to the RFA with the income tax exemptions. Parliament passed the Income Tax (Amendment Bill) 2023 on 20 December 2023 which seeks to, on commencement of the new law, expand income tax exemptions on terminal payouts received by employees as well as pensioners (both on retirement and on some early withdrawals) as detailed below.

#### **Terminal payments to employees**

The exemption on all gratuities, severance pay and retrenchment packages shall be increased from 33.33% to 50%. This technically puts more cash into the hands of those leaving employment or renewing contracts due to the increase in the tax exemption.

#### **Pensions on retirement**

Pensions receivable on retirement shall be exempt to the extent of 50% of the pension entitlement, up from 33.33%. This has the same affect to the public as stated above.

#### **Wholly exempt pensions or annuities**

Annual pension or annuity entitlements not exceeding P20 000 shall be fully exempt from tax, up from P5 000. This is in recognition of the fact that such pension amounts are low and must not suffer tax.

#### **Sickness withdrawals**

The entire amount paid to a deferred member of a pension fund for the purposes of medical treatment shall be exempt from tax. This is a new exemption which stems from the RFA amendment stated above. This also seeks to improve livelihoods by ensuring that no-one is taxed on amounts withdrawn from pension funds for health purposes.

#### **Loans for deferred members**

In addition to the above, 50% of any amount withdrawn by a deferred pension fund member for the purpose of settling a loan shall be exempt from tax and if due to tax chargeable on the amount, the payout is not sufficient to cover the loan, then the full withdrawal shall be exempt from tax.

#### **Conclusion**

As stated above, the main aim of the amendments was to improve the livelihoods of senior citizens and persons who receive terminal employment benefits either when they lose their

jobs or on renewal of employment contracts. They also seek to ensure that there is alignment between the RFA and the Income Tax Act. These amendments will take effect when the Bill becomes an Act, which could be anytime from the date of writing of this article.

Well, folks, we hope that was insightful. As us the two Yours Truly say goodbye, remember to pay Caesar what belongs to him. If you want to consult, join our free Tax WhatsApp group or to know about our 9 Tax e-books, send a text to +267 7181 5836 or email us at [jhore@aupracontax.co.bw](mailto:jhore@aupracontax.co.bw). You can read more tax articles on our website, [www.aupracontax.co.bw](http://www.aupracontax.co.bw) under the 'Tax articles' tab.