

When do unknown receipts trigger income tax in Botswana?

It is usually common for some businesses to receive funds in their bank accounts and fail to correctly identify the client or payer. Consequently, such funds end up being treated or accounted for as unknown receipts or unidentified deposits. In such cases, business operators end up converting the accumulated deposits for business use as, at times, no one claims ownership of the same. It is worth noting that some of the impacted business operators end up facing a quandary on the tax treatment of such receipts. Keep on reading and allow us to help you understand when unknown receipts are taxable. In this article, words importing the masculine shall be deemed to include the feminine.

Enter unknown receipts

As alluded to above, unknown receipts are generally a result of erroneous deposits by a customer or an error made by the bank in processing a deposit. Usually, where an error originates from the bank, the bank generally processes an internal reversal to correct the error. However, in instances where, say a customer quotes an incorrect bank account number, such errors may go unnoticed and the amount may remain an unknown receipt in the company's accounts indefinitely. On the other hand, some customers may follow up even after some time and claim their funds. Now, this gets one to wonder what happens to those funds that remain sitting in a company account indefinitely and the company utilises those funds because no one came to claim the same.

Enter Tax

Primarily, it is of paramount importance to understand that income is only taxable when it accrues or is deemed to have accrued to a person. To bring clarity, the term accrued technically means that a person would have derived an unconditional and legal claim to such income. In other words, a person should derive an unconditional right to claim such income. Looking at the unknown receipts, it is apparent that such receipts would have been involuntarily deposited without any consent or legal obligation between the depositor and the recipient. However, should the funds remain unclaimed indefinitely it is prudent to state that the company would have inadvertently obtained a financial benefit. In this case, the Income Tax Act prescribes that the gross income subject to tax for any person includes, 'the market value of any benefit, whether or not convertible into cash, accruing in the course of business.'

As alluded to above, it is undeniable that if a company utilises unclaimed unknown receipt it would have technically derived a valuable benefit. Ordinarily, an unknown receipt remains untaxable for income tax purposes as long as the receiver holds it as a liability to the unknown depositor. The moment the receiver converts the unknown receipts into his cash, then he would have derived a benefit subject to tax per the Income Tax Act. In other words, the receiver would have earned some income from the conversion, when I fact he would not have rendered any services or goods. On the other hand, a forfeited deposit will also trigger VAT in the hands of the receiver the day the forfeiture occurs.

Conclusion

In a nutshell, unknown receipts can only be taxable when they are used by the receiver as his income. This usually happens after some time and when no one claims the monies as theirs.

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. You can read more tax articles on our website, www.aupracontax.co.bw under the 'Tax articles' tab.