

Building societies' interest is tax-free in Botswana

Investing in building societies can be a smart financial decision, particularly because interest income earned from building societies is exempt from income tax. This means that investors can enjoy tax-free returns on their investments, making building societies a popular choice for many individuals and businesses. Keep on reading and allow us to help you appreciate this lucrative investment decision. In this article, words importing the masculine shall be deemed to include the feminine.

Enter building societies

A building society is a type of financial institution, often organised as a cooperative, commonly found in various countries Botswana included. Building societies offer savings and investment products to their members, who are often required to purchase shares in the society in order to become members. A brief history and evolution of such societies indicate that building societies originated in the 19th century as cooperative societies that allowed members to pool their savings to provide mortgages and other loans to each other. Today, they continue to offer savings and mortgage products, but also often provide a range of other financial services, such as current accounts, insurance, and investments.

Building societies are regulated by governments and financial authorities, just like other financial institutions. In Botswana, the Non-Banking Financial Institutions Regulatory Authority (NBFIRA) is responsible for regulating building societies and other non-banking financial institutions.

Building societies are generally a popular choice for investors because they offer competitive interest rates on savings accounts and fixed deposits, as well as, tax-free interest income, as we will elaborate below. However, it's important to note that building societies are not banks even though they might appear to operate on the same level and offer similar services.

Enter Tax-free zone

In this regard, it is crucial to note that the rule of thumb, per the Income Tax Act, is that any income that accrues to any person in Botswana, that originates from the same, is deemed to be taxable unless specifically exempted by the same Act. Accordingly, the said Act prescribes that 'the following classes of amounts included in gross income shall be exempt from tax to the extent indicated-any amount payable as interest on any subscription share issued by any building society resident in Botswana.' To decipher this seemingly technical jargon, the above-quoted provision of the Income Tax Act simply states that if one is to invest or acquire shares issued by a building society in Botswana, any arising interest paid or payable to the investor does not suffer Income Tax.

This technically means that such interest income does not suffer withholding taxes at source and the respective investor need not include the interest in their tax return. For the avoidance of any doubt, the exemption applies to both resident and non-resident investors.

Consequently, this means that if, in any case, such income was subjected to tax whether by withholding tax or by final assessment, such tax paid should be claimed back from the taxman.

Conclusion

Investing in building societies can be a smart way to earn tax-free interest on your savings. This can be used as tax planning tool which allows the investors to earn tax-free interest.

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.