

Heirs pay inheritance tax on life insurance payouts in Botswana

Many people take life insurance as a financial planning arrangement meant at ensuring that their dependents, usually spouses and children, are financially secure should they meet their demise. Practically, the insured will make contributions to an insurance company during their lifetime and in the insurance agreement they nominate a beneficiary, being the person who has to receive the insurance payouts as and when they pass on. In this article, words importing the masculine shall be deemed to include the feminine.

Insurance payouts

The insurance payouts will then be made by the insurance company to the dependents of the insured person to help the latter to meet their financial obligations soon after the loss of the insured. Whilst life insurance is common and well known by the public, there is little to no information on the tax consequences of insurance payouts. This article is meant to shed light on the fact that the life insurance payouts trigger a little-known tax called inheritance tax chargeable in terms of the Capital Transfer Tax Act. Throughout this article, any reference to the incidence of the said tax shall be deemed to exclude exempt persons such as spouses, i.e., those which the said Act exonerate from paying the tax.

Inheritance Tax

The above-mentioned Capital Transfer Tax Act states that any recipient of a "gratuitous disposal" should pay inheritance tax as prescribed in that Act. The inheritance tax is a tax which is payable based on the fact that the recipient gets to enjoy something of value which they did not work or pay for. The said tax is payable to the Botswana Unified Revenue Service by the 30th of September of each year, that is within 3 months from the end of each tax year which closes on 30 June annually.

The said inheritance tax is determined using the market value of the inheritance that would have devolved to the said dependents. However, the tax is only payable to the extent to which the value of the inheritance exceeds P100 000 in aggregate. Tax is levied at rates which range from 2% to 5% and at the highest bracket, it is determined as P16 000 plus 5% on the excess over P500 000. Should it happen that there is more than one beneficiary, they equally share the P100 000 exemption at arriving at the applicable tax. As an example, if one dependent receives P 2.1m as insurance payout after the passing on of their parent, they will only be taxed on P 2m, that is: $(P16\ 000 + 5\% \times P\ 2m - P\ 100\ 000) = P\ 91\ 000$.

The tax filing

To comply with the inheritance tax, every recipient of the insurance payout must register with the Botswana Unified Revenue Service to obtain a Capital Transfer Tax number. They must then file the Capital Transfer Tax return by 30th September and upon assessment, pay the tax due. However, since the inheritance taxes are usually once-off, the taxpayer may then

deregister for that tax with BURS so as to avoid a scenario where they will have annual returns generated every year.

Conclusion

From the analysis above, any insurance payout that is received by a dependent or beneficiary after the passing on of an insured person is subject to tax whether the insurance policy was obtained by the insured personally or under group life covers provided by employers. The insurance company or employer do not have the obligations to deduct any taxes but such obligation rests on the beneficiary. However, lawyers, executors and any such person who administers estates must ensure that the beneficiaries pay this tax. Insurance companies also need to educate their insured clients about this tax. Should you wish to consult on this or any tax matter, please contact us on the details below.

Well folks, we hope that was insightful. As us the two Yours Truly say goodbye, remember to pay to 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.