

Why unknown receipts suffer Corporate Tax in Botswana

At times, some businesses may receive funds in their bank accounts and fail to correctly identify the transferor or depositor of such funds. Consequently, such funds end up being treated or accounted for as unknown receipts or unidentified deposits. In such cases an entity may end up converting the accumulated deposits for business use as, at times, no one claims ownership of the same. Accordingly, it is imperative that business operators understand that such receipts are taxable even if they are not linked to any service or good supplied. Allow us to help you understand why unknown receipts are, against all expectations, still subject to income tax. 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 actually follow up even after a span of time and claim their funds. Now, what about those funds that remain sitting in a company account indefinitely and the company utilises the 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 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. Now, 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 company. However, should the funds remain unclaimed indefinitely, it is prudent to state that the company would have inadvertently obtained a financial benefit. In that 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 stated above, it is axiomatic that if a company utilises unclaimed unknown receipts it would have technically derived a valuable benefit. However, for such benefit to be taxable it has to satisfy the 'accrual' requirements per the Income Tax Act. Accordingly, it is prudent to state that a deposit can only accrue to any person if it originates from a legal obligation to make such deposit. Consequently, unknown receipts occasioned by a fortuitous event cannot be said to have arisen as a result of an unconditional legal obligation. This technically means that unknown or erroneous deposits fall outside the ambit of a benefit accruing in the course of business. In other words, unknown receipts ordinarily constitute non-taxable income. However, where such receipts are never claimed for

years, they then become deemed to be subject to income tax per the above quoted section 28 of the Income Tax Act. Should the depositor pop up say 10 years after the deposit, any amount refunded to him must be used to reduce income tax previously paid to BURS.

Well folks, we hope that was insightful. As us the two Yours Truly say goodbye, remember to religiously pay your taxes. If you want to consult, join our free Tax WhatsApp group or to know about our 9 Tax e-books, send us a text on the +267 71 81 836. You can read more tax articles on our website, www.aupracontax.co.bw under the 'Tax articles' tab.