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TAX SPECIALISTS
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Postal: P O Box 504899, Gaborone
Physical: 1st Floor, 205 Independence Av, Gaborone
Telephone: 393 9435 / 71 81 58 36
Website: www.aupracontax.co.bw

CGT ARISES FROM SALES OF IMMOVABLE PROPERTY IN BOTSWANA

Sometimes people end up selling a piece of land or other immovable property they own because of personal circumstances or simply because they want to realise a gain in asset appreciation. In some instances, it might be because of financial distress or possibly to secure an alternative investment. However, in as much as such disposals may appear to bring immediate gains that would fulfil the objective of the seller, there are tax implications to consider. The disposal of farmland or a plot or other property may seem to be informal in that people may simply agree on a price and complete the transaction. However, it is vital to remember that such a transaction triggers a tax called Capital Gains Tax or CGT. In this article, words importing the masculine shall be deemed to include the feminine.

The sale

The sale of a plot or farm held as an investment cannot be equated to everyday transactions relating to buying and selling of movable articles or implements. Such a sale is predominately characterised as a sale of an investment unless someone is in the business of selling such properties on which the land becomes his or her trading inventory. Accordingly, the occurrence of such transactions is sporadic so to say, resulting in most landowners neglecting the resultant tax obligations. In essence, property disposals result in gains technically referred to as capital gains. If one buys a plot at P100 000 and sells it at P500 000, the potential capital gain, before other deductions is P400 000. Let us have a look at what the tax laws say about this tax.

Enter Tax

The tax laws generally impose capital gains tax on gains realised from the sale of immovable property. The tax is assessed on the selling price less the cost of acquiring the farm, incidental disposal costs and some inflation allowance, i.e., the capital gain. If you dispose a property you inherited, the cost in such instance will be the market value of the property at that point in time the property devolved to you. In addition to the cost of the land, the Income Tax Act permits the seller to deduct costs of any additions such as durawalls, pavements, extensions, disposal costs and an inflation adjustment. Further to note is that the cost of acquiring a capital asset i.e., the property includes costs that are incidental to such acquisition, including tax advice, legal expenses and transfer taxes.

CGT is determined using sliding scales which end with a tax rate of 25% on the higher bracket, for individuals. Companies suffer the tax at 22% for resident companies and 30% for non-resident ones registered at CIPA as branches.

On the other hand, the acquisition of immovable property triggers another tax known as transfer duty. The transfer duty is basically triggered by transfer of any immovable property and it is assessed in the hands of the buyer. That was just meant to be a teaser as we are not in the mood of talking about transfer duty at length today.

Cheers buddy!

You probably may be wondering what you must do for previous disposals of immovable properties where you didn't pay tax. Well, let us leave that to you to decide on the way forward or consult us for assistance. If you are a business advisor, you may need to share a few hints with your clients but don't forget that you may require expert tax advice! Lastly, this tax is not payable under instances where two or more resident companies restructure and such reorganisation does not result in a change in the beneficial ownership of assets changing hands.

Well, folks, we hope that was insightful. As us the only true 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.