

## **CELLPHONES GIVEN TO EMPLOYEES TRIGGER TAXES IN BOTSWANA**

Most companies provide their employees with tools of trade needed for the smooth operation of business tasks, ranging from stationery, internet connections, cellphones, etc. Often, these tools are provided free of charge to the employees at the expense of the employer. It is important to note that most of these free benefits should be subjected to PAYE and VAT. In this article, words importing the masculine should be deemed to include the feminine.

### **PAYE**

The Income Tax Act (ITA) provides that 'the value of any other benefit or advantage granted to an employee in respect of his or her employment' constitutes employment income which should be subjected to PAYE. This provision of the ITA covers the use of employer provided cellphones by the employees at no cost to the said employee. The basic principle is simple: the use of the employer's mobile device, or the provision of a communication service such as the internet or a telephone service, is tax-free if used for business purposes. However, the personal use should be included in the impacted employee's taxable income.

### **Business v personal - PAYE**

Often times, it is not easy to determine business usage and private usage of cellphones, complicating the assessment of the taxable value of personal use. Some businesses draft contracts which stipulate business limits not to be taxed and any private usage in excess of the stipulated business limit should be taxable in the hands of the employee, if not deducted from the employee's salary. Practically, a business can have a policy which states that managers are allowed to use P 2 000 worth of airtime a month and if the employee exceeds that limit, then the excess is deducted from the said employee's salary. If not deducted, then the employee must be taxed on the excess over P 2 000. Further, it also means that employees who have unlimited airtime usage must also be taxed on the excess above the business portion.

### **VAT aspects**

Any person dealing with taxation matters of a business should know that employee fringe benefits not only have PAYE implications but also carry VAT implications. If you weren't aware of this, consider this an opportunity to learn as we will explain how it works. This is a crucial tax aspect that is often overlooked but equally carries vast VAT implications which can financially cripple the business just like the common tax mistakes. The VAT Act provides that when a VAT-registered person provides goods acquired for a taxable activity to an employee for personal use, it is treated as a supply related to that taxable activity, as long

as the registered person was allowed to claim an input tax deduction upon purchasing the goods. This provision indicates that the VAT-registered individual must account for VAT on the benefit provided to the employee at no cost. Basically, a VAT-registrant must pay output VAT for unlimited airtime granted to employees or for the portion above the business usage. Alternatively, the VAT registrant must simply only claim the proportion of the VAT which is directly allocable to the portion. As an example, if a company incurs VAT on a Mascom bill of P100 000 and P30 000 relates to private portion, then the company can only claim P70 000 as VAT. If it claims VAT on the P100 000, then it must declare output VAT of P30 000 since this is for private purposes.

Well, folks, we hope that was insightful. As we 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](mailto:jhore@aupracontax.co.bw). You can read more tax articles on our website, [www.aupracontax.co.bw](http://www.aupracontax.co.bw) under the 'Tax articles' tab.