oprácon
TAX SPECIALISTS
Consulting . Training . Compliance

Postal: P O Box 504899, Gaborone
Physical: Plot 80319, Gaborone North, along Mmamashia Rd (opp. WUC Treatment Plant)
Telephone: +267 393 9435 / +267 71 81 58 36
Website: www.aupracontax.co.bw

Free asset transfers trigger VAT in Botswana

It usually happens that VAT registered entities change the use of assets acquired for advancing taxable activities of a business to a different use, other than the purpose to which they were initially acquired for. For example, a company dealing in motor vehicles may decide to gift the director one of the vehicles for personal use. This is commonly referred to as a change of use, and this change carries tax implications, but our focus today will be on the VAT implications of such a change. Read on as we delve deeper into this concept. In this article, words importing the masculine should be deemed to include the feminine.

What the Act says

The Value Added Tax Act (VATA) lists different transactions/instances where VAT is chargeable on goods and services supplied by entities which are registered for VAT. These entities are then required to remit over the VAT they would have charged on their taxable supplies to Botswana Unified Revenue Service (BURS). This type of VAT is called output VAT. One instance where output VAT is supposed to be accounted for by a VAT registered business is when it would have purchased assets for business use and subsequently applied them in a different manner than it had intended to when acquiring those assets. This would apply in cases where the business would have been allowed an input tax claim at the time of purchase of the goods, and the subsequent change in use does not reflect the arm's length principle, i.e., the change is either done for free or at prices below the market value. However, where input VAT was not claimable, no output VAT is charged on change of use.

Change of use also includes the transfer of assets from a business to its employees. Usually, businesses gift their employees with assets for free or at prices below their market values. if we are to digress a bit here, the transfer to employees not only triggers VAT, but it also triggers PAYE in the hands of the employee because the free transfer is taken as a fringe benefit which is taxable.

Accounting for output VAT

The VATA treats change of use as a deemed supply which is valued at the open market value and therefore a business must account for the output VAT as if indeed it sold the asset. Let us use an illustration to better understand this concept. If company A purchased laptops for P55,000.00 VAT inclusive for business use and was allowed an input tax claim, then it decides to gift them to the directors for free, then company A will have to account for output VAT of P6,754.39, calculated as 14/114*P55,000.00.

Conclusion

The VATA makes it clear that any change in the use of assets, particularly when assets acquired for taxable business purposes are transferred for free or at below-market value creates a deemed supply for VAT purposes. Where a business originally claimed input VAT on an asset, it must later recognise output VAT if that asset is diverted to non-business or private use, such as gifts to employees or directors. This requirement ensures that VAT registered entities do not receive an unintended tax advantage by claiming input VAT and then using assets outside the scope of taxable operations.

Tax hint: If you have never had a tax audit/review conducted by a tax consultancy firm to check whether you are tax compliant, or should it be apparent that you are not certain that your tax affairs are in good order, then don't wait for the taxman to pounce on you, as that can be very costly. Contact us today so we can help you fix your tax affairs whilst you still have time.

Contacts: You may contact us at +267 7181 5836 or +267 393 9435 or jhore@aupracontax.co.bw or www.aupracontax.co.bw. This article is general, and tax advice is recommended if decisions are to be made. If you need to join our free Tax WhatsApp groups or to know more about our 9 Tax e-books, please send us a text/WhatsApp on the number above.