

You can register for VAT without P1million if you need a trade license

The draft Value Added Tax Bill, as read with the draft Tax Administration Bill (TAB), gazetted in December 2025, brings a notable degree of flexibility in VAT registration. This development will particularly benefit new or startup businesses which require a trading license. Under the current VAT regime, it is widely understood that VAT registration is mainly triggered once a business exceeds or is expected to exceed the prescribed P1 million turnover threshold per annum. In this respect, it is crucial to note that the draft legislative framework introduces an important variation that fundamentally changes how businesses may enter the VAT system. In this article words importing the masculine shall be deemed to include the feminine.

The new regime

The draft framework expressly recognises that a person may register for tax purposes before commencing business, particularly where such registration is required for regulatory compliance i.e. where a trade license is required by a business. The Tax Administration Bill provides that 'a person may apply to the Commissioner General for registration as a taxpayer if the person proposes to commence an activity that would require the person to apply for a licence under any written law.' This confirms that tax registration, including VAT, may occur at a pre-trading stage where it is necessary to obtain a trade licence or comply with another regulatory requirement.

However, the draft VAT Act retains the traditional structure by providing that persons making taxable supplies below the P1 million threshold may voluntarily apply to register for VAT. It is crucial to note that when this provision is read together with the broader taxpayer registration framework, it becomes clear that voluntary registration is no longer confined to businesses that are already actively trading. Instead, it accommodates businesses that intend to trade and require VAT registration in order to lawfully commence operations.

Under the current VAT Act, registration below the P1 million threshold is technically permitted on a voluntary basis. In practice, however, it is often restrictive, as businesses are generally expected to demonstrate that they are already carrying on a taxable activity before registration is approved. This creates a well-known practical difficulty in instances where businesses are unable to obtain a trade licence without a VAT number, yet cannot obtain VAT registration without first commencing operations, thereby creating barrier to entry to that specific trade. Further, this poses a real difficulty for capital intensive businesses such as property development and some farming operations as VAT on purchases cannot be claimed, as such businesses would not have generated any revenue.

The draft legislative framework directly resolves this issue by recognising the intention to carry on a taxable activity, rather than requiring the activity to have already commenced. Accordingly, the draft law removes this structural barrier, and this change reflects a broader policy shift in the approach to VAT registration. It is no longer treated purely as a consequence of turnover but is increasingly recognised as a gateway to economic participation and formalisation.

Accordingly, when this law commences, new startup businesses will be able to register for VAT at the outset, obtain trade licences without delay, and commence operations on a fully compliant basis.

Despite the flexibility introduced by the draft law, VAT registration carries full compliance obligations. Businesses that register for VAT remain subject to the same compliance requirements as any other registered person.

Conclusion

In conclusion, the draft tax regime introduces a pragmatic and commercially aligned approach to VAT registration. It removes a long-standing restriction in the law and provides a clear pathway for businesses to formalise their operations from the outset. VAT registration is no longer only triggered by turnover; it may now also be driven by the need to legally operate, including businesses which require a trading license. However, as with all tax matters, the decision to register early should be made with careful consideration and, where necessary, professional guidance may be obtained.

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.

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