

Entertainment expenses will be limited to 50% for CIT.

Most businesses incur expenses such as staff meals, accommodation, and recreation to support operations, enhance relationships, and drive performance. These costs are also commonly incurred in the course of travel for marketing, training, and other business activities. However, under the new Income Tax Bill, 2025, such expenses, which are classified as entertainment, will be subject to a 50% deductibility limit once the law comes into effect. In this article words importing the masculine shall be deemed to include the feminine.

Entertainment

Under the new income tax laws, the term "entertainment" is defined to mean the provision of accommodation, food, drink, or recreation, other than food or drink to the extent that it is provided in respect of travel for employment or business purposes.

In this respect, it is important to note that the new definition introduces a more structured scope of what constitutes entertainment expenditure. This means that anything falling outside this definition would not be regarded as entertainment expenditure for income tax purposes. For example, food and drink provided in the course of business travel would not constitute entertainment, whereas accommodation provided, regardless of whether for business or non-business purposes, would generally fall within the definition of entertainment.

The current law

As alluded to above, under the current Income Tax Act, entertainment expenses are generally deductible to the extent that they are incurred in the production of taxable income. In other words, while some jurisdictions disallow such expenses, the current regime is relatively liberal and recognises that businesses will, from time to time, incur entertainment expenditure which qualifies for deduction.

The new law

Under the new law, entertainment expenses are now clearly defined and, for businesses that do not ordinarily provide entertainment as part of their core business activities, the deduction will be limited to 50%. For example, if a company incurs P50,000 on accommodation for its employees during a business trip, only 50% of that expense (i.e., P25,000) will be deductible for tax purposes.

However, the law provides for important exceptions. Where the entertainment expense gives rise to a taxable benefit in the hands of the employee, the employer will be allowed a 100% deduction. For instance, where an employer provides

accommodation to an employee and accounts for PAYE on the benefit, the full expense will be deductible. Where the entertainment expenditure is incurred in the ordinary course of generating taxable income, such expenditure will also be fully deductible. For example, a hotel will be allowed 100% of the costs incurred in providing food and accommodation to its customers, as this forms part of its core income-generating activities. Similarly, where a business that does not ordinarily trade in entertainment incurs such costs as an integral part of delivering its services, such as a consultancy firm providing training that includes meals and accommodation, those expenses may still qualify for full deduction, as they are directly linked to the provision of taxable services.

Conclusion

This amendment is aimed at increasing corporate income tax collections by restricting the extent to which entertainment expenses may be deducted.

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.