

## **Banks will no longer pay advance VAT for finance leases**

The Value Added Tax Act (VAT) will soon be replaced with a new law which was passed by Parliament in the week ending 18 April 2026. The new law being the Value Added Tax Bill of 2025 will on commencement replace and re-enact the current VAT law. In other words, the current Value Added Tax law will be done away with and a new law will take over. In this article we want to analyze how the new law is going to change VAT treatment of finance leases. In this article, words importing the masculine shall be deemed to include the feminine.

### **The current position**

Under the current law banks and any other business which offers finance leases as a service are required to account for VAT in advance whenever they sell assets under finance lease arrangements. Finance lease arrangements occur in instances where a client identifies assets from a dealer and then request the bank to arrange for the payment on behalf of the said client. The client will then pay the bank or the provider or the finance lease vendor over a couple of years, usually 5 years and above. Technically, the client pays monthly installments over the period of the lease despite the fact that the bank or finance lease provider pays the full VAT in advance. The financier will be required to account for output tax on full selling price of the impacted goods, as an example if a bank finances a vehicle worth P1 000 000 which attracts VAT of P140 000 it is required to pay to BURS P140 000 in the first month in which it sells the vehicle to the client despite the fact that the client could possibly be paying P5 000 per month. This results in banks having to part with P140 000 and yet they will be collecting small amounts on the VAT on the P5 000.

### **The New Law**

Under the new law, financiers or dealers in finance leases will no longer be required to pay the full amount of output tax at the time that they conclude the sale. This is because the new law regards such sales as periodic supplies and it states that the banks will only be required to pay VAT on so much that would have been received from the client. In the above example, instead of accounting for VAT on P140 000 on the first day of raising an invoice to the client, banks will be allowed to account for output tax on the P5 000 that they would have actually received.

### **Conclusion**

This change is quite significant for finance lease providers as it allows them to manage their cash flows without having to stretch their financial positions by paying VAT which

would not have been collected. In our view, this should be a welcome development to most financing businesses due to the cash flow implications of the said law.

**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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