

# e-budgetnews

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Grant Thornton Acumen 



**Budget Theme- Improving Economic Performance: A Vehicle for Sustainable and Diversified Development**

In this issue of the e-budget news we discuss the budget proposals for the year 2004/05 presented by the Honourable Minister of Finance and Development Planning. Presently, the budget is only a draft and will have to be approved by the National Assembly.

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**Highlights**

- The 2004/05 budget proposal estimates total revenue and grants at P 18.21 billion and total expenditure and net lending of P 18.14 billion, resulting in a small surplus of P 70 million. The expected revised budget outturn for 2003/04 expects a budget deficit of P 20 million, resulting in an almost balanced budget.
- The real GDP was estimated to have grown by 6.7% in 2002/03.
- Medium and long-term domestic bonds floated in 2003 will be listed on the Botswana Stock Exchange in the first half of 2004. Public Debt Service Fund loan book to be sold to the private sector as part of Governments efforts to develop the capital markets.
- In order to regulate and oversee non-banking financial institutions, the Government is considering establishment of a Financial Service Regulatory Authority.
- Botswana to be developed as a telecommunication hub in the region to cater to the demands of IFSC projects in the information services sector.
- Securities Bill will be drafted during 2004/05 to give added authority for the regulation of all the activities of the Botswana Stock Exchange, Listed companies, investors and brokers in accordance with best international capital market practices.
- Sovereign credit rating continues to place Botswana ahead of many developing countries.
- Estimate of Balance of Payment shows an overall surplus of about P 1 billion.
- The foreign exchange reserves stood at US \$ 5.3 billion, (P 24 billion), which provides 26 months of import cover.
- Revised guidelines of Credit Guarantee Scheme, has increased the upper loan limit to P 2 million from P 250 000; increased guarantee cover to the banks of 75% of the net loss, from 60%; and maximum interest rate of prime + 2%.
- The Government is in the process of developing a foreign direct investment strategy, a foreign investment law, as well as build capacity for the negotiation of bilateral treaties.
- The Industrial Development Act is being reviewed to provide for decentralised and simplified industrial licensing system.
- Botswana has now attained self-sufficiency in the production of poultry meat and egg, contributing not only to food security, but also to rural employment.
- Damtshaa diamond mine commissioned in 2003 has surpassed its target with a recovery of 292 000 carats.
- Road tolling expected to be implemented during 2004/05
- Capacity to perform the VAT audits to be increased.
- New pay structure for Public Service Salaries to be implemented in April 2004 resulting in an average increase of 15% in salaries.
- Various amendments to Income Tax Act proposed to improve tax compliance and administration. Details outlined in the taxation section.

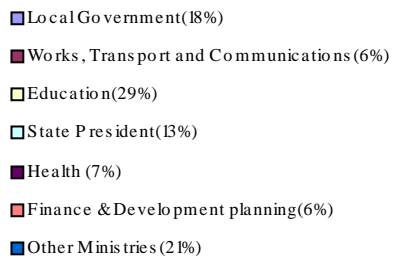
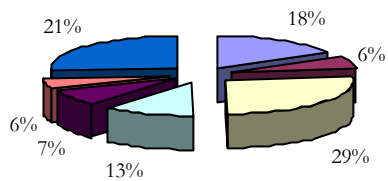
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## Taxation

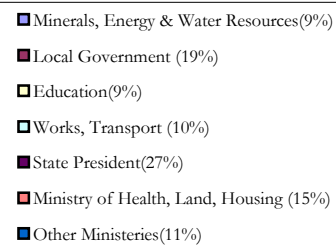
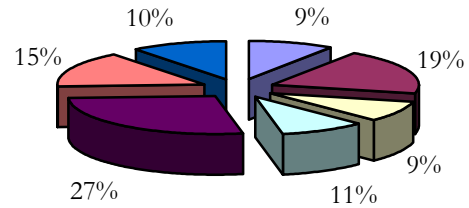
PARTICULARS	EXISTING	PROPOSED
Set-off of farming losses against income from other sources	<ul style="list-style-type: none"> <li>Can be offset against <b>100%</b> of the other income of the current year.</li> </ul>	<ul style="list-style-type: none"> <li>Amount that can be offset against other income to be restricted to <b>50%</b>.</li> </ul>
Housing benefits	<ul style="list-style-type: none"> <li>Taxable benefit is 6% of the rateable value.</li> <li>For non-rateable properties, it is <b>5%</b> of the estimated value of the property.</li> </ul>	<ul style="list-style-type: none"> <li>Taxable benefit increased to the 10% of rateable value.</li> <li>For non-rateable properties, taxable benefit increased to <b>8%</b> of the estimated value of the property.</li> </ul>
Capital gains on sale of shares.	<ul style="list-style-type: none"> <li>Private companies - Exemption of 50% gains.</li> <li>Public companies – 100 % exemption.</li> </ul>	<ul style="list-style-type: none"> <li>Private companies – Exemption to be reduced to 25%.</li> <li>Public companies - Full exemption available only for <b>Botswana resident</b> public companies.</li> </ul>
Tax treatment on saloon cars and station wagons	<ul style="list-style-type: none"> <li>Capital allowances available upto <b>P 100 000</b> irrespective of the cost of the vehicle.</li> <li>The annual allowances denied can subsequently <b>be claimed</b> as a disposal loss.</li> <li>The tax effects are currently different depending on whether the company leases, rents or purchases a vehicle.</li> </ul>	<ul style="list-style-type: none"> <li>Capital allowances enhanced to <b>P 175 000</b> irrespective of the cost of the vehicle.</li> <li>The annual allowances denied <b>cannot</b> be subsequently claimed as a disposal loss.</li> <li>The tax effect to <b>remain the same</b> irrespective of the option exercised by the company to lease, rent or purchase a vehicle.</li> <li>The above restrictions are not applicable to businesses engaged in renting or hiring vehicles.</li> </ul>
Public benefit organisations	<ul style="list-style-type: none"> <li>Currently <b>exempt</b> from Income Tax and need not file income tax returns.</li> </ul>	<ul style="list-style-type: none"> <li>In future such organisations with business income or capital gains realized from disposal of assets need to file income tax returns.</li> <li>For exemption on such income, the commissioner of taxes has to be satisfied that it is used for public benefit purposes.</li> </ul>
Filing of returns/Payment of tax	<ul style="list-style-type: none"> <li>All companies to file returns and complete payments within <b>three months from the end of the tax year.</b></li> </ul>	<ul style="list-style-type: none"> <li>Every company to file tax returns and complete tax payments within a period of <b>four months from the end of its financial year.</b></li> </ul>
Tax payments for Self employed persons	<ul style="list-style-type: none"> <li>Self employed persons with income from multiple sources could delay payment of taxes on certain income till after the end of the tax year.</li> </ul>	<ul style="list-style-type: none"> <li>To make <b>an interim tax payment within the tax year and a final payment after the end of the tax year.</b></li> </ul>
International Financial Services Centre Companies	<ul style="list-style-type: none"> <li>The existing rules restrict the International Financial Services Centre Companies to do business with <b>non-residents only.</b></li> </ul>	<ul style="list-style-type: none"> <li>Rules facilitating the establishment of linkages between International Financial Services Centre Companies and sister companies with existing operations in Botswana to be put in place.</li> </ul>
Capital expenditure claim on dwelling units for workers	<ul style="list-style-type: none"> <li>Currently restricted to <b>P 5 000 per dwelling unit.</b></li> </ul>	<ul style="list-style-type: none"> <li>To be raised to <b>P 25 000 per dwelling unit.</b></li> </ul>
Withholding tax on Entertainment fees	<ul style="list-style-type: none"> <li>Fees paid to non-resident individuals attract withholding tax of 10%.</li> </ul>	<ul style="list-style-type: none"> <li>Scope of deduction extended to cover non resident <b>Associations and companies.</b></li> </ul>

## Budget allocation

### Recurrent expenditure - P 14.53 Billion



### Development expenditure - P 3.61 Billion



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## Tax tables

### Personal income tax

#### Resident individuals

Annual taxable Income	Tax liability 2003-2004	Marginal rate %	Average rate %
25 000	0	0	0
30 000	250	5	0.83
35 000	500	5	1.43
40 000	750	5	1.88
43 750	938	5	2.14
45 000	1 063	10	2.36
50 000	1 563	10	3.13
55 000	2 063	10	3.75
60 000	2 563	10	4.27
62 500	2 813	10	4.50
65 000	3 188	15	4.90
70 000	3 938	15	5.63
75 000	4 688	15	6.25
80 000	5 438	15	6.80
81 250	5 625	15	6.92
85 000	6 375	20	7.50
90 000	7 375	20	8.19
95 000	8 375	20	8.82
100 000	9 375	20	9.38
110 000	11 875	25	10.80
120 000	14 375	25	11.98
130 000	16 875	25	12.98
140 000	19 375	25	13.84
150 000	21 875	25	14.58
160 000	24 375	25	15.23
170 000	26 875	25	15.81
180 000	29 375	25	16.32
190 000	31 875	25	16.78
200 000	34 375	25	17.19
250 000	46 875	25	18.75
300 000	59 375	25	19.79

#### Resident individuals – tax summary

Annual taxable income	Rate of tax
Up to 25 000	0%
25 001 to 43 750	0 + 5 % of excess over 25 000
43 751 to 62 500	938 + 10% of excess over 43 750
62 501 to 81 250	2 813 + 15% of excess over 62 500
81 251 to 100 000	5 625 + 20% of excess over 81 250
Over 100 000	9 375 + 25% of excess over 100 000

## Non - resident individuals – tax summary

Annual taxable Income	Rate of tax
0 to 43 750	5 % of every Pula
43 751 to 62 500	2 188 + 10% of excess over 43 750
62 501 to 81 250	4 063 + 15% of excess over 62 500
81 251 to 100 000	6 875 + 20% of excess over 81 250
Over 100 000	10 625 + 25% of excess over 100 000

*There has been no change in the income tax rates from the previous year.*

## Companies

### Normal

Company tax	15%
Additional company tax	10%

### Manufacturing / IFSC

Company tax	5%
Additional company tax	10%

*There has been no change in the income tax rates from the previous year.*

## Capital gains tax

### Individuals

Annual taxable Income	Rate of tax
0 to 12 500	0%
12 501 to 43 750	0 + 5% of excess over 12 500
43 751 to 62 500	1 562 + 10% of excess over 43 750
62 501 to 81 250	3 437 + 15% of excess over 62 500
81 251 to 100 000	6 250 + 20% of excess over 81 250
Over 100 000	10 000 + 25% of excess over 100 000

## Companies

Company tax	15%
Additional company tax	10%

*There has been no change in the income tax rates from the previous year.*

## Capital transfer tax

### Individuals

Annual taxable income	Rate of tax
0 to 100 000	2% of every Pula
100 001 to 300 000	2 000 + 3% of excess over 100 000
300 001 to 500 000	8 000 + 4% of excess over 300 000
Over 500 000	16 000 + 5% of excess over 500 000
<b>Companies:</b>	12.5% of every Pula

*There has been no change in the income tax rates from the previous year.*

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