2019/2020 Budget Highlights

KPMG Advisory Services (Namibia) (Pty) Ltd

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April 2019

Key message

Quote by the Honourable Minister
"It's good to have money and the things money can buy, but it's good too, to check up once in a while and make sure that you haven't lost the things that money can't buy."

The tax proposals were delivered by the Honourable Minister of Finance, Mr. Calle Schlettwein at the National Budget address on 27 March 2019 with the aim of achieving pro growth fiscal consolidation. They include revenue raising measures as well as tax policy and administration reforms to support the implementation of the fiscal consolidation program.

This document contains a high level overview of and brief commentary on each of the proposed changes.

Tax Policy

Area	Proposal	Key analysis
Tax Incentives	Phase out the preferential tax treatment granted to manufacturers and exporters of manufactured goods. Repeal Export Processing Zone (EPZ) and allow sunset clause for current operators with EPZ status. Introduce Special Economic Zones (ZES).	➢ **This could discourage investments in the manufacturing industry which may negatively impact the economy.** ➢ **Amending the allowances instead, could contribute to positive revenues for the Government without compromising Namibia as an investment destination.** ➢ **Provisions relating to SEZs as opposed to EPZs would need to be analysed to determine the real impact.**
Dividends Tax	Introduce 10% tax on dividends paid to residents.	➢ **It would be problematic if no exemption is granted for loans, share buy backs, distributions by trusts and in group scenarios as this would impact negatively on normal corporate activities.**
Taxation of Trust	Abolish the conduit (flow through) principles in respect of the taxation of trusts.	➢ **Conduit principle of shifting tax burden to beneficiaries by reducing tax payable in a Trust is being abolished.** ➢ **This is contrary to the principle underlying the institution of trusts as a safeguard of assets.** ➢ **Include exemptions for special trusts.**
Section 16 exempt income	Subject income derived from commercial activities by charitable, religious, educational and other types of institutions under Section 16 of the Income Tax Act to normal corporate tax. Institutions will therefore be required to register as taxpayers and file annual tax returns.	➢ **Profits made from commercial activities undertaken by such institutions currently enjoy exempt status under the provisions of section 16 of the Income Tax Act.** ➢ **Organizations will require clear mandates as to their charitable and commercial activities to ensure that they are not disqualified on their commercial activities which may be at short interval.** ➢ **Include exemptions for short interval commercial activities.**

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Area	Proposal	Key analysis
Taxation of foreign sourced income	Taxation of all income earned from foreign sources. Namibian residents will have to declare such income in their annual tax returns.	➢ **The proposed change may indicate that Namibia seeks to change its basis of taxation for residents from "source" to "residency".** ➢ **If this is the case, amendment to legislation may be required; for example:** ➢ **The definition of gross income would need to be amended to include foreign income and exclude the "source" limitations. Consequently, deemed source provisions may become redundant.** ➢ **The term "Namibian resident" would need to be defined for both individuals and companies. This would mean introducing the physical presence and place of effective management tests into Namibian income tax legislation. This should be done in a manner that does not conflict with the respective withholding tax provisions.** ➢ **Amendments to Double Tax Agreements (DTA) may have to be negotiated.** ➢ **It may be necessary to introduce tax credit mechanisms within the domestic law for non DTA countries.** ➢ **It remains unclear as to whether foreign expenditure and losses will be allowed to be set off against taxable income.**
Retirement Fund Contributions	Increase the tax deduction for retirement fund contributions from N$40,000 per annum to 27.5 percent of income with a maximum of N$ 150 000.	➢ **This tax relief will benefit individual taxpayers who are on the higher end of the tax tables.** ➢ **It is however noted that the proposal only relates to contributions towards retirement funds whilst the current N$ 40 000 exemption also included contributions towards pension and educational policies.**
Deductibility of fees paid to non-residents	Disallow deduction of fees and interest paid to non-residents until payment of withholding tax is can be proven.	➢ **This proposal appears to be aimed at ensuring that all amounts claimed as deductions for payments to non-residents are subject to the required withholding taxes to assist the Government in collecting these taxes.** ➢ **It would also appear that the proposed change is intended to combat potential over deduction of fees and interest as a result of the gross up mechanism applied (i.e. where the burden of the tax is carried by the person making the payment).**

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Area	Proposal	Key analysis
VAT Changes	Introduce VAT on: • income of listed asset managers; and • proceeds from sale of shares or membership in company owning commercial immovable property.	➢ **We assume that the intention is to levy VAT on asset management fees as opposed to a levy of VAT on the income as proposed.** **Should our assumption be correct. The proposal means:** ➢ **Asset management fees will include VAT at 15% which will increase costs for investors that are not registered for VAT.** ➢ **It also means that asset managers will be entitled to deduct input VAT on their costs.**
	Remove zero-rating in respect of sugar.	➢ **The zero rating provision in terms of Schedule 3 makes specific reference to a supply of dry white or wet or dry brown granular sugar.** ➢ **VAT at a rate of 15% will increase the cost of this basic food for consumers who now need to pay VAT on sugar. We assume that the aim of the proposal is designed to support the Ministry of Health to reduce the incidence of diabetes, obesity and related diseases – this underlies similar measures as in South Africa with their sugar tax.** ➢ **Further consideration may be required to rather only impose the tax on sugary drinks as is one of the measures in South Africa.**
Deductibility of royalties	Disallow deductibility of royalties for non-diamond mining entities.	➢ **It is unclear whether the proposal is aimed at the mining industry only or all businesses that pay royalties.** ➢ **With the proposal, no taxpayer will be permitted to deduct the cost of royalties.** ➢ **It would appear that the proposed change is to assist Government in recognising an additional income source as the taxable income of the taxpayers would be increased as a result of not being able to deduct the cost, effectively increasing the income subject to tax. This would however only benefit Government assuming that the entity would be in a payable position.** ➢ **Provisions relating to mining and non mining companies would need to be analysed to determine the real impact.**

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Customs and Excise

Area	Proposal
Excise Duties	➢ Increase fuel levy by 25 cents per litre. ➢ Expand export levy to include other agricultural, forestry, game products and other. mining products. ➢ Increase export levy for dimension stones from 2% to 15% maximum. ➢ Introduce15% export levy on timber.
Environmental levy	➢ Introduce levies on importation of lubricant oil of N$ 1.80 per litre. ➢ 5% of cost on primary cells and primary batteries. ➢ Plastic carrier bags (rate undisclosed).

Sin Taxes: Excise duty proposed increases

Beer:
From N$1.62
to N$1.74
(N$0.12)

750ml of wine:
From N$2.93
to N$3.15
(N$0.22)

750ml bottle sparkling wine:
From N$9.32
to N$10.16
(N$0.84)

Bottle of whisky:
From N$61.30
to N$65.84
(N$4.54)

Pack of 20 cigarettes
N$15.52 to
N$16.66
(N$1.14)

Typical cigar
From N$7.16
to N$7.80
(N$0.64)

Our thoughts on what Government should also consider:

Agreements for the avoidance of double taxation with more jurisdictions. Finalise co-operation agreements with the Global forum on Transparency & Exchange of information/OECD Multilateral Convention on Mutual Administrative Assistance/Inclusive Framework on BEPS…

Leveraged regional and international tax co-operation

Our thoughts on what Government should also consider:

All other reforms have to be strengthened to ensure success...

Establishment of Namibia Revenue Agency by 1 October 2019 including commencement of recruitment

Tax Administrative Reforms

Improved tax administration to ensure compliance with the tax laws and improved efficiency of domestic collection

Our thoughts on what Government should also consider:

Consultation is key in relation to laws. Ambiguity delays progress…

Continued Roll-out of Integrated Tax System

Targeted recovery of tax arrears

Our thoughts on what Government should also consider:

System errors need to be resolved first before further roll out of system changes. Administrative burden to keep re-submitting returns previously submitted. Amounts previously cleared should not resurface...

Our thoughts on what Government should also consider:

Currently too many system errors preventing smooth transition…

Introduce a Tax Administration Act…

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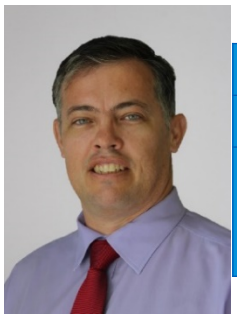
Contact Us:



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