

Cap housing benefits to 25% for PAYE in Botswana

Generally, any taxable benefit enjoyed by employees is taxed in full. However, any employee who enjoys a housing benefit doesn't necessarily have to be taxed on the full amount of such benefit, as we will discuss in this article. In this article, words importing the masculine should be deemed to include the feminine.

Enter tax

Every employee's remuneration which exceeds P4,000 per month is subjected to employees' tax known as Pay-As-You-Earn (PAYE) according to Section 32 of the Income Tax Act (ITA). The Act provides for taxation of both monetary and non-monetary benefits in the hands of employees, including the housing benefit which will be our point of focus today. However, the tax rate applicable can significantly influence an employee's disposable income, particularly in cases where housing is a substantial portion of the compensation package.

The housing benefit is added to other taxable remuneration and taxed using Botswana Unified Revenue Service (BURS) tax tables. The value of the benefit is determined differently depending on the location of the impacted property. For houses located in tribal areas, the value of the benefit is determined by multiplying $8\% \times P250 \times$ floor area of the house. Those in towns are taxed at 10% of the rateable value of the property obtained from the local City Council. We must be upfront and state that the housing benefit arising from houses located in tribal areas is almost close to nothing due to the fact that the above-mentioned formula was prescribed a couple of years ago. However, the benefit arising from houses located in towns can certainly be significant and care must be exercised in choosing housing as a benefit for or by employees.

25% cap

The taxable amount for housing benefits is not allowed to exceed 25% of the employees' gross salary and other benefits, excluding the housing benefit. This cap serves as a protective measure against excessive taxation of housing-related benefits. If an employee earns P1m per annum before the housing benefit is considered, then regardless of what the 10% formula yields, the said employees' housing benefit cannot be more than P250 000. This therefore means that those who set payroll software packages must configure their systems so that they comply with this 25% cap. Additionally, those who don't have software packages must also ensure that their Excel or other versions of payroll packages don't result in the over taxation of employees.

Why capping?

The tax cap is meant to ease the financial burden on workers, especially with high housing expenses as the cost of housing in cities like Gaborone and Francistown is going up. Further, it plays a vital role in attracting skilled workers to Botswana because of the manageable taxes especially in important industries that help the economy grow. Additionally, the disposable income of employees is widened by the cap, consequently promoting businesses and supporting overall economic growth.

Conclusion

The 25% cap on taxable housing benefit in Botswana represents a thoughtful approach to balancing tax against the needs of employees, employers and the broader economy. By alleviating the financial strain associated with housing costs, this policy has the potential of improving employees' standards of living, enhancing workplace satisfaction and promoting economic activity.

Tax hint & cheers!

If you have never had a tax audit conducted on your business by a tax firm, we highly recommend that you consider such so as to proactively reduce tax gaps. As we say goodbye, remember to pay Caesar what belongs to him.

If you want to consult, join our free Tax WhatsApp group or to know about our 9 Tax e-books, send a text to +267 7181 5836 or email us at jhore@aupracontax.co.bw. You can read more tax articles on our website, www.aupracontax.co.bw under the 'Tax articles' tab.