

BSB interest is the best; tax-wise

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There are so many investment options available in the country as well as abroad but from a tax perspective, BSB interest is, in our considered view, the most tax-efficient among the said many investment options. Currently, BSB is making advertisements which state that it pays tax-free interest of between 7% and 8%, depending on investment periods. We intend to analyse this investment option in today's article and shed more light on why it probably is, currently, the best rewarding investment. The comments we present in this article are purely based on our technical analysis of the laws of Botswana and must not be construed to have been solicited for and neither must they be regarded as placing an obligation on anyone besides ourselves to answer any questions on any matter we raise herein.

Enter tax

The BSB is a bank that is owned by the Government of Botswana and it was created by an Act of Parliament. Per publicly available information, the bank has grown to become a leading financial institution with a strong commitment to financial inclusion, serving thousands of members across the country. The BSB provides financial services that include investments (including tax-free interest), savings, insurance and mortgages.

Interest earned from the BSB is specifically exempt from income tax, meaning that BSB is not required at law to deduct withholding tax on the interest paid to its customers. This exemption is conferred by Part II of the Second Schedule to the Income Tax Act which states that, 'interest payable by the Botswana Savings Bank, including interest on Botswana Savings Bank Certificates,' is exempt from income tax. The tax exemption is aimed at encouraging savings, investments, increase disposable income for individuals and businesses, support economic growth and general development of Botswana and residents of the country. The tax exemption makes savings more accessible to a wider range of people.

Practical matters

Since the interest is exempt from tax, BSB is not required to issue tax certificates commonly known as ITW 9s as no tax is deductible on the interest. The exemption basically means that the earners of such income do not have to declare the interest as taxable income when they submit their income tax returns. This means that companies have to reduce their net profit before tax by so much of the BSB interest, which effectively lowers their Corporate Income Tax. However, if a non-resident person earns such interest, they may have to pay tax in their home country as the said exemption only applies to Botswana-based taxpayers.

Better than dividends

Since BSB interest is exempt from tax, it is also better than a dividend. A dividend is paid only after a company makes profits, which profits first suffer Corporate Income Tax at 22%.

Dividends are then declared from retained earnings, being profits after tax. Additionally, the same dividends are subject to another income tax of 10%, which technically makes the effective tax on a dividend rise to 29.8%. Further, dividends are only paid after a company makes a profit, meaning that in periods where the company makes losses, the investor's money is locked and unproductive. Lastly, dividends are subject to a solvency test, which means that before they are declared, the company should beyond doubt ascertain that it will be able to foot its financial obligations after the dividend payments. Technically, dividends are, in our view, one of the poorest rewards for investors, tax-wise. On the other hand, BSB interest is guaranteed, in addition to being tax-free.

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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