

## **Educational institutions can claim 200% training expenditure for CIT**

The Income Tax Act (ITA) has a great tax incentive for educational institutions and certain taxpayers that are not registered for VAT. These taxpayers may claim a deduction equal to 200% of qualifying employee training costs when calculating their Corporate Income Tax (CIT). This incentive encourages employers to invest in developing the skills of their workforce. Instead of claiming only the actual cost of training, qualifying taxpayers are allowed to deduct twice the amount spent, reducing their taxable income. It is a welcome incentive that supports staff development while providing meaningful tax relief to employers. Read on as we dive further on this aspect. In this article, words importing the masculine should be deemed to include feminine.

### **The practice**

Taxpayers often enroll their employees with some training institutions like universities and colleges, in the process incurring costs such as registration, tuition, and study material fees. The purpose is to equip employees with new knowledge and skills that improve their performance in the workplace. Taxpayers that are registered for VAT and pay the Training Levy (TRL) are able to recover qualifying training costs through the Human Resource Development Council (HRDC). Educational institutions also incur employee training costs, but unlike these other VAT registered entities, they are not entitled to claim reimbursement from HRDC. Instead, the ITA allows educational institutions to claim a 200% deduction for approved employee training expenditure when computing their taxable income.

### **Why educational institutions**

Educational institutions are exempt from VAT. As a result, they are not required to account for VAT or to pay TRL, which is collected through the Botswana Unified Revenue Service (BURS) on behalf of the HRDC. Since they do not contribute to the TRL, educational institutions are not eligible to recover their training costs from HRDC. Instead, they enjoy a tax benefit of a 200% tax deduction for income tax purposes. The enhanced deduction is also available to other taxpayers who are not registered for VAT and are therefore not entitled to claim training expenditure from HRDC. On the other hand, VAT registered entities that are eligible for HRDC reimbursement cannot claim the 200% tax deduction. The law prevents taxpayers from enjoying both benefits on the same expenditure.

In simple terms, taxpayers who can recover their training costs from HRDC cannot claim the 200% tax deduction, while those who cannot access HRDC reimbursement may qualify for the deduction provided they meet the conditions set out in the ITA.

### **BURS approval is required**

These educational institutions do not receive the 200% deduction automatically. Before claiming the 200% deduction, they must apply to BURS in the prescribed form and obtain approval for the training expenditure. Without this approval, the deduction cannot be claimed. For example, if company A is VAT-registered and it incurs training expenditure of P10,000, it cannot be allowed a P20,000 CIT deduction (being 200% of the training cost) tax deduction because it can be reimbursed by HRDC for training its employees. However, if this company was not registered for VAT, a P20,000 tax deduction would be allowed, provided it gets approval from BURS for the training.

**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 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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