aupracon
TAX SPECIALISTS
Consulting . Training . Compliance

Postal: P O Box 504899, Gaborone
Physical: Office 15, 2nd floor. Plot 50667, Left Block at Medical Mews, Fairgrounds, opp BancABC
Telephone: +267 393 9435 /+267 71 81 58 36
Website: www.aupracontax.co.bw

BUSINESS LOSSES CAN'T REDUCE SALARY TAX: By Jonathan Hore

I love hustlers; they see opportunities where everybody smells threats and they gamble with their money and never count any losses. Honestly, if you want to make it in business, you simply need to swallow risk without necessarily worrying about stomach aches. Of course, your risk-consumption must be calculated and strategic.

I want to address those hustlers who, whilst they may be employed, conduct some business by the side. In particular, I will discuss whether business tax losses can be offset against employment when one files their tax returns. You may remember that some people previously could offset farming losses against their salaries. And don't get it twisted; I am only referring to individuals who run businesses as sole traders, not as companies. If you run a company, the company's income can never mix with yours as you are two legal persons. In this article, words importing the masculine shall be deemed to include the feminine.

Business tax loss

A business tax loss refers to a scenario where a business' expenses are more than the income, from the perspective of the tax laws. To put this into context, if you make tax profits of P250 000 from your rental business whilst your expenses amount to P300 000, then you realise a business tax loss of P 50 000 (P250 000 less P300 000), which I shall henceforth call tax loss. Well, a tax loss is technically an asset in your hands in the sense that it will save you taxes in subsequent years, if you migrate into the profit zone. So, assuming that you record a tax profit of P180 000 in the year following that in which you record the P50 000 loss, your taxable income becomes P130 000 (P180 000 less P50 000). Now, that's sweet because you pay less tax due to the tax loss!

You need to know that the tax loss can be carried forward for at most, 5 years. If you record the P50 000 loss in 2020, you can only utilise it against tax profits from that business until 2025, whereupon the unutilised balance falls away. In other words, the losses won't cross the border into 2026.

Enter the offset

If you are an individual who runs a business as a sole trader and at the same time you earn a salary, you are taxed on both the business profits and salary as one person. The easiest scenario is where you have business profits of say P250 000 and a salary of P200 000, you add the two and pay tax on the P450 000. That looks easy-peasy, doesn't it? Don't celebrate that much, I am about to hit you with a complex one; the one only meant for tax consultants!

What if you recognise a business tax loss of P50 000 but you do have a salary of P 200 000? Can you offset the loss against the salary so that you get taxed on P150 000? The answer is a big no! But why would the taxman want to treat you differently simply because now you have a tax loss? I told you, this isn't for kids. Ga se ya bana! Owaii.

Here is the answer

Now, let me explain to you why you can't mix the two. Your employment income, although not specifically mentioned in the Income Tax Act, is regarded as 'ring-fenced' from your business income. This simply means that if you have a tax loss from any business you run as a sole trader, you can’t mix that with employment income. Its like water and oil, those two don’t fuse.

Now, let me break it down a little further. If you have a tax loss brought forward from a prior year of P 50 000 and have zero business income this year, you will still be taxed on the salary of P200 000 as if the tax loss does not exist. However, remember that if you have business income and a salary, the two are added and you pay tax on the total amount. That is not the case with business tax losses; they can only be utilised against subsequent years’ business profits. They are tacitly ‘ring-fenced’ meaning that there is a stop-nonsense wall around them.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax Whatsapp group, send me a text on the cell number below.