

Buy Property from non-VAT Registrants & Pay Less Tax: By Jonathan Hore

Whenever tax laws change, they usually bring tax advantages to other sectors of an economy whilst some may lose. The new amendment to the Transfer Duty Act brought about a lot of exemptions to citizens but there is one which no-one seems to be talking about and I will address it today. The issue I am discussing is that if a citizen buys immovable property from a non-VAT registrant, they pay less taxes than when they buy from a business registered for VAT. I must hasten to state the term citizen includes a Motswana and a company that is majority owned by Batswana. I must also state that a citizen only pays transfer duty in cases where VAT is not charged. In other words, where VAT is charged, citizens don't pay transfer duty. In this article, words importing the masculine shall be deemed to include the feminine.

Let's talk property taxes

Effective 1 March 2020, citizens can now buy immovable property and enjoy a transfer duty exemption on the first P1m of the price. The rate of transfer duty for citizens is 5% and that is a tax paid by the acquirer of immovable property such as houses. There is a peculiar fusion of VAT and transfer duty which then makes it interesting if a citizen gets to know the resultant tax effects.

Let me reiterate that a citizen does not have to pay transfer duty on the purchase of an immovable property from a VAT registrant as would have been charged at 12%. Let me repeat and say that citizens are exempt from transfer duty on the first P1m of any purchase, if they have to pay transfer duty! Don't forget that.

Bear in mind that if a property is being sold by a VAT registrant, it carries VAT of 12% in the price. As an example, if a property costs P1m, the VAT registrant will have to charge VAT at 12%, making the final purchase price P1.12m. On the other hand, if a citizen purchases a similar property from a non-VAT registrant, the 12% VAT is not applicable, making them liable to pay transfer duty at 5%. Notice that VAT is paid directly to the seller whilst transfer duty is paid to BURS.

This is the big deal

Having laid the background above, I am sure I can now point you to how you pay less tax if you buy from someone who is not registered for VAT. Citizens can pay less tax by simply choosing not to buy property from VAT registrants. In other words, they should buy from individuals or corporates not registered for VAT. That simple choice makes a world of difference and you will soon realise how.

Let us assume that a citizen is acquiring a house from a VAT registered property developer for P1m, the final price becomes P1.12m, including 12% VAT. Technically, that citizen pays tax amounting to P120 000 which he can't claim as he is not registered for VAT, making him a final consumer who bears the tax cost. However, if the same citizen looks for a seller who is not registered for VAT, he would still have to pay the same P1m to the seller but does not pay the VAT of P120 000. The seller can't charge VAT as he is not registered for the tax, which automatically makes the buyer subject to transfer duty at 5%. However, as the buyer is citizen, he enjoys a P1m transfer duty exemption, bringing the tax base to P0.00 (P1m-P1m). In other words, the transfer of the property can proceed without any tax being payable.

Before I check out

Now, let's compare these two dudes; the other one went ahead and paid P1.12m including VAT of P0.12m (to the VAT-registrant) whilst the other only parted with P1m (to a non-VAT registrant) and paid no tax. So, what differentiated them; knowledge of the provisions of the scenarios where the legislature gives back and when he doesn't. In simple, buying property from non-VAT registrants gives citizens a tax advantage in that they pay less taxes. If that opened your eyes, say this with me: Tada!

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.