

NO INCOME TAX REGISTRATION TILL YOU TRADE

In some instances, businesses which endeavour to comply with tax laws may struggle to comprehend or understand the requirements of tax registration. One might ask, at what point exactly should a business register for income tax purposes? In a nutshell, a business can only register for income tax subsequent to commencement of trade. Keep on reading and allow us to help you understand why trading is a prerequisite for income tax registration. In this article, words importing the masculine shall be deemed to include the feminine.

Trade!

So, what do we mean by trade? The literal meaning of the term trade generally refers to giving one thing in exchange for another. Regarding taxation, trade can be construed to be that act of giving one thing in exchange for another for the purpose of deriving an economic resource or advantage whether directly or indirectly. Put in other words, trade, for tax purposes relates to those series of commercial activities conducted by any person to derive a financial gain. On the other hand, the Income Tax Act does not provide a legal definition of the term trade. However, the said Act provides that trade is embedded in the definition of a business. In verbatim the Act defines 'business' to mean, 'any business, trade, adventure...'. Let us now have a look at the source concept and income tax, in brief.

Enter Source & Income Tax

Firstly, it is key to note that the Botswana tax system is currently based on source and not on residency. Income derived or deemed to be derived from sources within Botswana is subject to tax. Source is the place where income originates or is earned, not the place of payment. If goods are sold pursuant to a contract entered into within Botswana, the source of income is deemed to arise in Botswana, regardless of the place of delivery or transfer of title. The source of services is the place in which the services are rendered.

Now, we take a closer look at income tax. This is basically, a tax that is imposed on a person's income. For businesses, the tax is levied on their profits (after determining allowable and disallowable expenses). In this respect, it is imperative to note that for income tax to be levied, the taxpayer must have made profits.

Tax registration

To put everything into perspective, a business may only approach BURS to register for income tax subsequent to commencement of a trade i.e., when it engages in an income generating activity. Any activities carried out before actual trading fall outside the scope of income tax as there will be nothing to tax. To further buttress this analogy, it is also key to note that the Income Tax Act prohibits the deduction of preproduction expenditure. For the avoidance of doubt, preproduction expenditure refers to expenses incurred during periods before the commencement of actual operations or trading.

Conclusion

To sum it up, businesses may only approach BURS for income tax registration subsequent to commencement of trading. Any activities conducted before the commencement of trading, including expenditures, fall outside the scope of income tax.

Well folks, we hope that was insightful. As us the two Yours Truly say goodbye, remember to pay to 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 on jhore@aupracontax.co.bw. You can read more tax articles on our website, www.aupracontax.co.bw under the 'Tax articles' tab.