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Capitalise on tax-free farming now!

The famous Benjamin Franklin is commonly quoted as having said that, 'in this world, nothing is certain except death and taxes!' However, regardless of the tax certainty averred by the American statesman, with careful planning, one may be able to legally pay the lowest tax possible or even escape paying tax at all. Today, we aim to discuss how taxpayers may take advantage on tax free farming to reduce their tax obligations, particularly sole traders. In this article, words importing the masculine shall be deemed to include the feminine.

Enter tax on farming

Generally, the Income Tax Act requires every person conducting farming operations to account for income tax on such income derived therefrom. The said Act provides that farming operations includes, 'the keeping of livestock, the undertaking of agricultural activities and pastoral farming, including the rearing of dairy cattle for milk and dairy products, stud farming, poultry farming, the rearing of sheep for wool or pelts, irrigated agriculture and horticulture.'

Livestock for slaughter

The Income Tax Act however provides that a Botswana-resident individual who conducts farming activities of rearing of cattle, goats or sheep for slaughter need not to account for Income Tax. However, in order for the resident individual to avoid tax, he should rear not more than 300 cattle or1800 goats/sheep. In verbatim, the said Act states that, 'any amount accrued from farming operations carried on in a tax year by a resident individual which involve the rearing for slaughter of cattle, sheep or goats, shall not form part of such individual's gross income for that tax year, if in respect of livestock farming operations the total number of livestock at all times during the tax year consisted of not more than 300 cattle, or the equivalent in whole or in part of sheep or goats, on the basis that six sheep or goats are equivalent to one head of cattle.'

Having regard to the above quoted law, this technically means that if the livestock exceeds the above stated numbers or the rearing of other livestock other than those specified above triggers income tax. Further, tax is also payable if such operations are conducted through say, a company.

Enter dryland farming!

Secondly, the Income Tax Act further states that an individual who conducts dryland farming on a farm not larger than 100 hectares is also not supposed to suffer income tax. Dryland farming includes crop farming where there is no irrigation and where the exposure of soil is avoided to reduce the loss of water through transpiration. To be precise, the Act further states that, 'any amount accrued from farming operations carried on in a tax year by a resident individual shall not form part of such individual's gross income for that tax year, if in respect of dryland farming, the total extent of the land involved in such farming operations did not exceed 100 hectares at any time during the tax year.'

Again, this must be conducted in the resident's individual capacity and not through a corporate vehicle. It is also key to note that the individual remains liable to pay other taxes such as Value Added Tax (if they exceed P1m annual turnover) and Pay As You Earn, if they have employees earning more than P4000/month.

Conclusion

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.