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INTERNAL GOODS AUCTIONS TRIGGER PAYE In Botswana

In some cases, when corporates or organisations want to get rid of obsolete assets, damaged goods or worthless goods or inventory, they usually sell the same to their employees through an auction. This practice is commonly referred to as a closed auction as it is only limited to a single employer's employees and excludes the public. In this regard, it is crucial that employers and employees understand that closed auctions technically trigger tax in the hands of the employees. Keep on reading and allows to help you understand why this is so. In this article, words importing the masculine shall be deemed to include the feminine

The internal auction

Basically, an auction is a sale in which buyers compete for an asset by placing bids. However, an auction that is only open to employees generally does not attract the number of potential bidders as would be applicable in an auction that is open to the general public. What is evident is the fact that a closed auction is likely to result in the employer failing to obtain a fair market value, which is key in determining PAYE on sales made to employees. As an example, if a company has 50 employees and it auctions a vehicle through a closed auction, it may fetch say P30 000 when the same car could sell at P 70 000 if opened to the public as some companies buy and sell used vehicles. Further, a closed auction may be restrictive in the sense that the vehicle may be offered to disinterested employees who may own vehicles already. Let us now have a look at what then triggers PAYE in such instances.

Enter PAYE

The Income Tax Act, states that the employment income of any person shall include 'the value of any benefit or advantage granted to an employee in respect of his or her employment.' In this case, it is undeniable that a benefit also accrues to employees who acquire assets/goods from an organisation's internal auctioning system as they enjoy the privilege of buying the same at a price below the market value. This technically triggers a taxable 'benefit or advantage.' Looking at it from a different perspective, employees who acquire company assets at a price below the prevailing market value are liable to tax at the benefit arising from difference between the auction price and the prevailing market value.

The critical aspect that must be appreciated by both employers and employees is that the tax laws regards any form of valuable sympathy that is extended to an employee by the employer as potentially subject to tax. In other words, the tax laws consider that anything with a monetary value that is given to an employee, is construed to be a compensation for employment services. In this regard, any company asset, goods, or inventory that is auctioned to employees at a price below the market value are considered as part of remuneration that is subject to PAYE. As alluded to above, such treatment is predominantly based on the provisions of the Income Tax Act which provides that employment income includes 'any other benefits.'

Conclusion

Concisely, employees are assessable for tax on the positive difference between the prevailing market price and the auction price of any goods. However, such tax may be avoided if the employer sells the goods to the employees at price the mirrors that of the prevailing market value.

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.