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Replace vouchers with tax-free travel concession in Botswana

Generally, some employers tend to incentivise their employees by way of rewarding them with financial benefits such as vouchers as a token of appreciation or, simply a valuable benefit. To that end, we all must understand that with adequate tax planning, vouchers might not be the best deal to compensate employees in a tax-efficient manner. A travel concession allowance, on the other hand, appears to offer a great deal of both tax and financial benefits which technically tops the chart of the most tax-efficient allowances that can be granted to employees and not vouchers. Keep on reading and allow us to help you understand why a travel concession is a better option than vouchers. In this article, words importing the masculine shall be deemed to include the feminine.

Vouchers vs travel concession!

Generally, a travel concession is an allowance paid by an employer to an employee for them to take a break from work. This allowance is commonly enjoyed by most civil servants as well as some employees of quasi-government institutions such as parastatals. It is generally known that, per the tax law, any allowance paid by an employer to employees is fully taxable if it is utilised by the employee for his or her private enjoyment unless specifically exempted by the Income Tax Act. On the other hand, a voucher is a document that may be exchanged for goods, services and even money. Let us now have a look at why the travel concession is a better option.

Enter tax!

The tax laws generally state that taxable employment income includes any allowances not necessarily used for the business of the employer. This technically brings vouchers into the ambit of taxable income as they are allowances that are used for an employee's private endeavours. That is to say, vouchers are subject to PAYE in full. However, regarding travel concession allowance, BURS, through its PAYE tables, ruled that the said travel concession paid to employees is not taxable. Ordinarily, the exemption of this concession is commonly enjoyed by government and parastatal employees. However, BURS extended the exemption to every employee regardless of who their employer is.

The tax benefit

For an employee to enjoy the exemption, BURS further provides that the allowance must be reasonable, and it must have been, 'wholly, necessarily and exclusively' incurred for the business of the employer. It is apparent that BURS did not provide a limit to the allowance, rather employers are left to determine the reasonable amount for their employees.

As an example, instead of granting its employees vouchers of, say, P 4,000 per annum to management and general employees, the same amount may be paid, tax-free, as travel concession allowance. This technically means that the employer is allowed to deduct such an allowance against its business income thereby increasing tax losses or reducing income tax without causing a spike in employees PAYE.

Conclusion

Employers can take advantage of this exemption as a planning tool and pay employees annual travel concessions which are fully exempt instead of fully taxable vouchers. As a result, the cost to the employer remains the same whilst employees enjoy increased disposable income.

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