

## **Tax aspects of property companies in Botswana (VRLSCs)**

Variable rate loan stock companies (VRLSCs) are fast becoming popular around the globe and Botswana is not spared from these evolutionary trends. These companies primarily develop immovable properties and they issue debt securities that have a variable interest rate. A number of shopping malls in Botswana were developed by such entities. This can provide investors with a higher return than traditional fixed-rate debt securities, but it also comes with greater risk. In addition to the inherent risk of investing in variable-rate debt securities, VRLSCs also have some unique tax considerations which will be explored in this article. In this article, words importing the masculine shall be deemed to include the feminine.

### **Enter VRLSCs**

Well, the basic idea behind a VRLSC is that the company issues a variety of loans to different borrowers and then pools those loans together into a single investment vehicle. Investors then buy shares in the company and receive regular payments based on the interest rates charged on the underlying loans. Due to the ever-changing interest rates, the returns on these investments can vary over time. These companies typically offer investors the opportunity to invest in a pool of mortgages, with the promise of a variable return based on the performance of the underlying loans. Now that we have a general appreciation of VRLSCs, let us now have a look at the tax implications of these companies.

### **Enter Tax**

The Income Tax Act defines a VRLSC as 'a company with limited liability in Botswana in terms of the Companies Act, the objects of which in terms of its Memorandum of Association are restricted to investment in immovable property and the development, refurbishment and maintenance thereof, and which, in terms of its Articles of Association, issues shares and debentures which together comprise linked units.'

Now, let's get into some of the specific tax aspects of VRLSCs in Botswana. Firstly, it's imperative to understand that these companies are subject to the normal corporate income tax. Amongst some of the special tax treatment they enjoy, VRLSCs are eligible for tax incentives, such as full deductions for interest paid. That is to say, their net interest expense is not restricted to the 30% limit of Tax EBITDA applicable to most businesses which don't have specific exemptions from such limitations.

Secondly, these companies are allowed to deduct the interest which they declare as a dividend despite the fact that dividends are not generally tax deductible. This technically reduces the effective tax on such companies as they reduce their taxable income through the interest deductions, making them more tax-efficient as compared to any other property development

entity. However, no tax deduction can be made on the dividend linked to normal shares. In addition, these entities are required to deduct withholding tax on the interest and normal dividends they declare at the applicable withholding rates.

### **Conclusion**

In conclusion, VRLSCs present unique tax benefits in Botswana and taxpayers should be aware of the various rules and regulations that apply to these companies. In particular, taxpayers should seek professional advice to ensure that they take advantage of all applicable tax deductions which reduce taxes. By understanding the tax implications of VRLSCs, taxpayers can make informed decisions that maximize their tax savings while remaining compliant with the tax laws.

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](mailto:jhore@aupracontax.co.bw). You can read more tax articles on our website, [www.aupracontax.co.bw](http://www.aupracontax.co.bw) under the 'Tax articles' tab.