

## **RENTAL LOSSES CAN'T REDUCE PAYE IN BOTSWANA**

A considerable number of individuals who are fully employed also earn rental income, mainly from immovable property. The question that arises is whether a loss from a rental or any other business has any impact on the PAYE or Personal Income Tax that one has to pay in any tax year. Bear in mind that PAYE would already have been deducted by the employer and at year-end, the impacted employee has to submit a return combining the business loss and their salary. Keep on reading and understand why a business loss cannot be offset against one's salary. In this article, words importing the masculine shall be deemed to include the feminine.

### **The basics**

In some instances, some employees own multiple residential properties and in turn earn rental income, whilst others earn income from hire of movables, décor businesses and part-time lecturing. Basically, the Income Tax Act provides that in order to determine the tax liability of an employee who also earns income from a business enterprise, the taxable income from all sources of income should be consolidated. In this respect, it might seem plausible to apply the same principle when an individual incurs a tax loss from his or her rental business. Consequently, this would ultimately lower any arising tax obligations. However, in as much as such practise may seem justifiable, it is not consistent with the requirements of the law. As a matter of fact, and per the said Act, rental or other business tax losses can't be offset against employees' emoluments. Let us now have a look at what is prescribed by the law.

### **The law**

The Income Tax Act provides that the deduction of a tax loss incurred during the operation of a business such as rental of premises is restricted and can only be utilised against income from a business and not a salary. In verbatim, the Act provides that, 'any assessed loss determined by the Commissioner General as incurred by any person in relation to any tax year shall be deducted in ascertaining the chargeable income of such person from a business for a subsequent tax year.' From the above citation, it is axiomatic that the scope within which a business tax loss can be deductible is ring-fenced to 'income from a business.' Therefore, it is without question that the income on which a business loss can be offset against is strictly that emanating from a business activity of the same person.

### **Tax loss**

As alluded to above, the same losses prohibited to offset against salary can be used to reduce future taxable business income of the same person. Technically, the loss becomes an allowable deduction in subsequent years specifically for business operations of the taxpayer. However, the deduction of tax losses is limited to 5 years from the tax year of establishment. In other words, a loss established in 2024 will fall off in 2029 if it is not absorbed by taxable income generated in between the said years.

## **Conclusion**

It is also key to note that employed individuals who also run profitable business enterprises are liable to tax on the combined revenue. However, any tax loss incurred from the business is deductible only from business income in subsequent years. By the way, the laws which previously allowed for utilisation of farming losses against salaries were long abolished.

Well folks, we hope that was insightful. As us the two Yours Truly say goodbye, remember to pay to Caesar what belongs to him. You can read more tax articles on our website, [www.aupracontax.co.bw](http://www.aupracontax.co.bw) under the 'Tax articles' tab. If you want to join our free Tax WhatsApp group or to consult or to know about our 9 Tax e-books, please send us a text on the cell number below.