

YOUR TAXES FUND THE 'PUBLIC GOOD' : By Jonathan Hore

Taxes have been in existence since time immemorial. Even the Bible talks of taxes in numerous instances. In the case of Botswana, taxes take the same role that they play in all other countries worldwide and that is to fund what economists call the 'public good.' For the record, taxes are one of government's major sources of revenue, apart from minerals. As you may know, mineral revenue was subdued in 2019 due to depressed demand in diamonds worldwide. I will analyse where your taxes go and how the tax system works in this country. Words importing the masculine shall be deemed to include the feminine.

THE PUBLIC GOOD

In any economy, most services and goods are provided by the private sector, which is profit-seeking. In other words, no-one has the resources to provide free services, except NGOs. But NGOs are not ready to provide all the services that the public needs. Economists tell us that the public demands what is called the public good, being public education, national security, public health services, roads etc. If governments do not collect taxes, then they would not be able to finance hospitals, pay the police, teachers, soldiers, public doctors etc. It is therefore apparent that taxes finance the public good.

HOW TAXES ARE PAID

Taxes are paid in a number of ways, depending on the type of tax and prescriptions made by the applicable Acts. For example, employees' tax or Pay As You Earn is paid through employers. In other words, before employers pay employees, they deduct the tax from those who earn more than P3 000 per month. The employers are then required to take the tax to BURS and issue employees with ITW8 forms, being certificates of tax deducted. Technically, employers are agents of BURS. But I must state that the P3 000 was last reviewed in 2011 and many tax practitioners concur that the amount is now too low, i.e. it could be revised to say P 5 000/month. If that were the case, PAYE would not be deducted on amounts below P5 000, which will come as a relief to many employees, especially those who have low-paying jobs.

Value Added Tax (VAT) on the other hand, is paid through VAT-registrants, being persons who are registered with BURS to collect and charge VAT. Currently, persons who make more than P1m/annum must compulsorily register for VAT whilst those between P500 000 and P1m may voluntarily register for the tax. Anyone making less than P500 000/annum must actually deregister for VAT. If one walks into a supermarket, they find a wide range of goods on the shelves. The prices that are displayed on such goods are inclusive of VAT. Therefore, VAT is paid through VAT registrants but it is collected from the public.

Other taxes have to be paid by the person who is charged with the tax, such as transfer duty which is paid when one acquires an immovable property. Technically, BURS is the central tax collection agency of government. So, whenever one hears tax, they should think of the public roads, public schools, policing services, among others.

TAXES ARE MANDATORY

Given a choice between paying and not paying taxes, very few people would volunteer to pay taxes but they would still demand the public good. If there was no law which forced employers to deduct PAYE before paying salaries, how many of us would voluntarily pay the PAYE to BURS? So, given the international phobia for tax amongst the public, governments have to make it obligatory or mandatory for certain classes of people to pay tax. In other words, governments worldwide put in place tax laws which compel people to pay taxes, whether they want to or not. Failure to pay the taxes attracts penalties and interest.

Currently, BURS charges various types of penalties but if they discover that one intended to evade taxes, they will charge penalties of 200% over and above the compound monthly interest of 1.5% (18.96% annually). This means that if a taxpayer underpays taxes by P1m, they will end up paying P 3m with the penalty, before interest. That's quite heavy and as such taxpayers should never underestimate tax penalties.

NEGATIVE PERCEPTIONS

Taxpayers do not have an option but to be positive about paying taxes. It is the responsibility of each citizen or resident of every country to contribute to the fiscus as those taxes basically benefit the taxpayer. Without taxes, there will be chaos in most countries and economic development would be stalled. It is negative perceptions which lead to illegal activities such as tax evasion wherein taxpayers intentionally do not pay taxes or come up with schemes meant at suppressing the tax due. Whilst tax planning is a legal way of minimising taxes attaching to a particular transaction, tax evasion is an illegal gimmick meant at cutting the tax costs such as inflating expenses or understating sales. Given the fact that the public demands the public good, it is axiomatic that tax collection is an essential part of the operation of any country and Botswana is no exception.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax Whatsapp group, send me a text on the cell number below.