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POSSIBLE TAX INTERVENTIONS TO COUNTER THE EFFECTS OF COVID-19

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1. Introduction

1.1 General overview

This Tax review report analyses the possible tax interventions that may be used to counter the negative knock-on effects of COVID-19 on the economy, the unemployed, underprivileged as well as the public in general. The report was prepared after the country/part of the country had experienced three lockdowns, all in an effort to combat the spread of COVID-19 (hereinafter 'pandemic'). The period covered by the review is the 2020-2021 fiscal year, which runs from 1 April 2020 to 31 March 2021. Periods outside the fiscal year may be mentioned where necessary.

Throughout this report, 'the Minister,' 'BURS' 'Pandemic' and 'PIT' shall respectively mean, 'the Minister of Finance and Economic Development,' 'the Botswana Unified Revenue Service,' 'COVID-19,' and 'Personal Income Tax, a tax levied on individuals who are self-employed or those who earn non-employment income.'

1.2 The challenges created by COVID-19

As is now public knowledge, the pandemic hit the country in the first quarter of 2020 and since then, it has had an unprecedented negative impact on the local economy. Business and normal public life was interrupted through restricted movements, regional lockdowns, swelling rates of unemployment, salary cuts, postponement of projects and clear pointers that businesses intended to shed off staff as a survival strategy. As a result of the above, the Minister advised the nation on 24 April 2020 that the economy was expected to contract by 13.1%, a target which was later revised downwards to 8.9%. The government also had to bail out corporates by paying them a wage subsidy of between P 1 000 and P 2 500 for the 3 months from April 2020 to June 2020.

Unemployment levels have soared to 23.2%[1], and media reports hinted that some companies, especially in the diamond industry, have already started laying off staff. Economists agree that the Small to Medium Sector (SME) and tourism industry are some of the hard hit in the economy. The diamond industry has also recorded marked declines in sales, which threatens the country's ability to finance its budgets. A lot of corporates have recorded marked declines in profitability following the outbreak of the pandemic, with the largest profits decline registered at 460%, for Cresta Marakanelo Ltd for its 30 June 2020 period. Government also put a cap to formal retrenchments at the beginning of the April 2020 lockdown through Statutory Instrument 63 of 2020 as a way of containing massive job layoffs, which are synonymous with the pandemic. It is not

[1] Statistics Botswana – Quarterly Multi-topic Survey: Labour Force Module Report Quarter 1: 2020

known what will happen in the job market when the said law comes to an end on 30 September 2020.

This report is therefore prepared against a backdrop of sinking government revenues, especially as the demand of diamonds remains low due to a glut in supply and cautious spending worldwide. Domestic taxes have also not been spared as the Minister hinted on 24 April 2020 that VAT collections which were expected to be P8.55bn would fall to P7.6bn for the 2021 fiscal year. The Minister also added that the 2021 budget deficit was also expected to breach P10bn, up from a mere P5.4bn announced in the national budget.

Government also emphasised the need of raising sufficient domestic taxes in the Economic Transformation & Recovery Plan when it stated that, 'in addition to raising user charges and fees for public services, there is need to urgently initiate a programme and timetable with respect to the following measures to raise additional revenue and hence reduce the budget deficit and financing.'

The Bank of Botswana has also reported marked reductions in SACU receipts, which will negatively impact tax collections and constrain government expenditure. This explains why the government is considering phased increases in the VAT rate by 2% as well as introducing carbon tax, to boost revenue. Other measures expected to bolster revenue collections include the introduction of electronic billing systems[2] which will result in the interface of VAT-registrants' billing systems with BURS, thereby encouraging correct and accurate collection of VAT. This has been implemented elsewhere, including most developed countries and also in Rwanda.

This report only analyses interventions that tax authorities could implement, mainly with a bias towards domestic taxes which BURS is mandated to collect according to the Value Added Tax Act, the Income Tax Act, The Transfer Duty Act and the Capital Transfer Tax Act.

1.3 What has been done to date

Tax laws are not just used to collect taxes from the public but they may also be used to stimulate economic activity or redistribute wealth. A close example is the recent 2% reduction in the VAT rate by Kenya (from 16% to 14%) effective 1 April 2020[3] as a way of cushioning the public from the negative effects of the pandemic. Botswana also introduced a number of tax incentives which were meant to salvage businesses, including: postponement of 75% of provisional taxes for corporates that were due between 1 March 2020 to 30 September 2020 to 31 December 2021; waiver of training levy for 6 months from either February or March 2020; extension of the validity of tax

[2] 2020/21 – 2022/2023 ECONOMIC RECOVERY & TRANSFOMATION PLAN – Ministry of Finance & Economic Development

[3] Deloitte website

clearance certificates to 31 March 2021; extension of due dates of submission of some tax returns and waiver of the requirement to submit individual income tax returns for certain employees earning below P 144 000/annum.

The above initiatives are commendable although they primarily cover the 2020 financial year and there is need to still use tax interventions beyond 2020, seeing that the pandemic could be around for some time.

2. Tax interventions

In order to maintain and create jobs, stimulate economic activity, cushion the underprivileged and relieve corporates of the burdens exerted by the pandemic, we propose that tax authorities consider implementing, among others, the following initiatives:

Ref	Issue	Initiative	Effect
i	Adjust personal income tax (PIT) or PAYE rates for inflation	The current tax brackets used to determine PIT and PAYE were last reviewed effective 1 July 2011 and they have been overtaken by inflation. Persons who earn more than P 3 000/month pay tax at 5%, whilst those who earn above P12 000/month are taxed at 25%. Those in between P36 000 and P144 000/annum are taxed at 12.5% and 18.75%. Per the National Cost of Living Indeces used to measure inflation for tax purposes, the non-taxable threshold of P 3 000 (in 2011) is now equivalent to around P4 500/month, in 2020. Adjusting the tax rates for inflation will increase the amount which is tax-free, which immediately relieves low income earners from paying tax.	This relieves low income earners as they will not have to pay income tax on the first P 4 500 or whatever increased threshold. It also increases their disposable incomes, which stimulates the economy through increased consumption of goods and services. It also cushions those whose salaries have been cut as well as employees who were made redundant due to the pandemic.
ii	Make contributions to COVID-19 Pandemic Relief Fund tax deductible	Currently, donations to the COVID-19 Pandemic Relief Fund are not tax deductible, which means that companies pay tax at 22% on so much of their contributions/donations to the fund as such donations are not regarded as tax deductible expenses.	Donations to the fund could be made tax deductible, which incentivizes corporates to give more towards the fight against the pandemic. This will boost resources needed to fight the pandemic.
iii	Introduce medical credit against PIT or PAYE	COVID-19 has added to the list of sicknesses and a sizeable number of the public suffer from short-term, chronic and terminal diseases. The authorities could introduce a medical aid credit where PIT and PAYE is reduced by say 50% of medical costs borne by the taxpayers (excluding medical aid contributions) and not recovered from any other source. This would ideally cover excess payments borne by affected taxpayers out of their pockets and they have to file personal returns.	This will relieve taxpayers who incur huge medical bills and avail funds to further finance more health services. The move will also balance the need to collect taxes with social welfare. This practice has been enshrined in the tax laws of, among others, South Africa, Canada and United Kingdom for decades.
iv	Introduce elderly and disabled person's tax	It is widely accepted that the elderly and disabled are financially disadvantaged as compared to those who are younger and able-bodied. An annual tax credit against PIT/PAYE	This will cushion the elderly and disabled from the negative effects of the pandemic through giving back part of tax through the credits system. It will effectively increase their

	credits	of say P10 000 could be introduced for those certified to be disabled to an extent of more than 50% and those above 55 years of age.	disposable income, spiraling economic activity.
v	Exemption from PAYE of the first P10 000 of a bonus	The authorities could exempt from PAYE the first P10 000 of bonuses paid by employers to employees.	This will increase workers' disposable income, which translates into higher demand of goods and services at national level. It could also encourage employers to pay bonuses as a way of rewarding them, in a tax-efficient manner.
vi	Tax amnesty on burdened taxpayers	BURS was owed P3.3bn in tax arrears as at 31 March 2018, much of which was attributable to tax interest. Tax interest can exceed principal tax and given the negative effects of the pandemic, we expect a spike of tax debts to around P5.4bn by the end of the 2021 fiscal year. Currently, BURS can only waive income tax interest of P25 000/tax year and it does not have powers to waive any interest charged on any other taxes such as VAT. The latter is the preserve of the Minister.	In recognition of the burdens faced by taxpayer due to COVID-19, the authorities could consider a blanket waiver of interest which is more than 70% of the principal tax. This will not only allow the taxpayers to survive in tumultuous economic times but it could help them retain staff and preserve the much-needed jobs.
vii	5% and 10% corporate tax rates for large employers	Unemployment is a live economic evil and threatens the welfare and livelihoods of the unemployed. The pandemic may add to the number of the jobless and bold decisions need to be made to absorb as many as possible in the formal employment. The authorities could entice major investors who commence operations and in the process, employ more than 200 people by the end of 12months from commencement of operations with a 5% tax rate for the 1st 5 years and 10% thereafter. To protect revenue, existing employers may be excluded from the preferential tax treatment. This would exclude businesses which are by nature labour intensive such as mining, to also strike a balance between the incentives and tax collections.	With the unemployment rate standing at 23.2%, 50 188[4] being those who obtained tertiary education, the tax incentive will create the much-needed jobs, which in turn benefits the whole economy through increased demand for goods and services. This will also improve the welfare of the employed persons.
viii	Introduce sugar tax	Sugar tax, just like any other sin tax, is meant to protect the public through discouraging consumption of goods and services detrimental to the well-being of the consumers. The authorities could introduce a sugar tax on a wider range of products than that covered by other countries such as South Africa which only targets sugar-saturated beverages. The local tax could cover beverages as well as other sugar saturated products such as sweets, cakes, juices, confectioners, sweetened dairy products, among others.	This will assist the authorities to raise revenue at a time when conventional revenue sources are drying up. Sin taxes have also been proven as a reliable way of reducing consumption of goods and services which threaten the consumers' health or welfare.
ix	Introduce securities tax	Buyers of shares are currently not taxed and regional countries have taxes on the acquisition of such shares, with the tax being	This would also bolster tax revenues and help the country sustain expenditures and minimize budget deficits. This tax is prudent as it

[4] Statistics Botswana – Quarterly Multi-topic Survey: Labour Force Module Report Quarter 1: 2020

		paid by the acquirer of the shares. The tax could be imposed on all Botswana Stock Exchange (BSE) as well as non-listed shares transfers. South Africa has a similar tax on such shares. Given that the BSE alone traded shares worth P1.81bn in 2019[5], a securities tax from the local bourse, before including non-listed entities, raises about P18m a year, if the tax is levied at 1% of the value of shares purchased.	targets those who have the capacity to pay.
x	Permanent residency tax	To bolster the much needed inflow of Foreign Direct Investment and raise taxes, the authorities may offer permanent residency to foreign nationals based on investment into specific sectors such as those buying a home or property worth at least P2m or a once off payment of at least P1m/person to BURS, through a residency tax. This will encourage wealthy individuals to migrate to Botswana, spend their wealth here and in the result, propel economic activity through the residency tax.	Most of the Caribbean Islands such as the Dominican Republic, St Lucia and St Kitts & Nevis have similar arrangements and some of them record the highest FDI flows through these incentives.
xi	Higher VAT for luxury goods	To redistribute wealth, a VAT rate of 15% can be considered for luxury goods such as passenger motor vehicles which cost more than P 500 000, jewelry, perfumery, residential houses or residential land worth more than P3m etc.	This will help in redistributing wealth by collecting more tax from those who have the capacity to pay and using it to provide the 'public good.' This will also increase the domestic tax collections.
xii	Deal with sworn tax evaders through a 15% tax	Many businesses, especially in the SME sector simply do not pay taxes and there are very few controls that BURS has to capture those businesses. Examples include some dealers in electrical goods, beauty parlors, hair salons, bus/combi/taxi operators etc. Tax clearance certificates usually force a few entities to comply with taxes but they are only limited to tenders. The tax gap could be closed by introducing a 15% withholding tax on anyone dealing with a person registered for tax with BURS who does not avail a tax clearance certificate. This will literally require almost all traders to regularize their tax affairs or face a 15% tax from revenue, which is steep.	Such a move will force difficult taxpayers to regularize their tax affairs with little to no effort from BURS and it will cut across all sectors of the economy, compelling enforced tax compliance as businesses try to avoid a cut in their revenue by 15%. This was once implemented in Namibia and it produced marvelous results.
xiii	Revise threshold of small companies	Small companies, which are regarded as those earning not more than P300 000/annum, may opt not to be taxed on profits at 22% but that their shareholders be taxed as if they were partners in a partnership, which allows each partner to an exemption of the 1st P36 000, which is not available to companies. That choice results in guaranteed reduced tax burdens for the shareholders of the companies when compared to taxes they would otherwise pay if they do not make such an election. The	As tax bills naturally go down when the small companies election is made, increasing the threshold to say P500 000 will ensure that small companies make some tax savings during the period of the pandemic, which will incentivize them to retain staff.

[5] Botswana Stock Exchange 2019 annual report

		threshold however now needs revision as it has been pegged at the P300 000 for over a decade. The revision could be tied to a commitment to retain current staffing levels by those who opt to make the small companies election, in order to maintain employment levels.	

3. Conclusion

The above tax incentives are in no way exhaustive and they may be combined with a number of other measures which can stimulate the economy. A desperate situation which we find ourselves in as a result of the pandemic may best be addressed by making bold steps to dilute the negative effects of the pandemic.