

Buy property from non-VAT vendors & save tax

Real estate is undoubtedly one of the most popular and lucrative investment vehicles. Such an investment is most applauded for its low risk and the obvious steady and reliable cashflow. Accordingly, such an investment in real estate i.e., property acquisitions, require proper tax planning. In that regard, it is imperative that real estate investors or any other person looking to purchase a property understands that property acquisitions from a non-VAT registered seller is more beneficial than acquiring one from a VAT registered person.

Generally, buying an immovable property technically triggers transfer duty in the hands of the acquirer at 5% or 30% for citizens and non-citizens, respectively. Where a citizen acquires an immovable property from a VAT registered seller, the transfer duty is waived in terms of the Transfer Duty Act. In this case, the tax that is only paid by the buyer is VAT on the property. In other words, the purchaser would have technically paid tax of 14% on the property value i.e., the VAT rate. On the other hand, where the citizen acquires an immovable property from a non-VAT registrant, only the 5% transfer duty is applicable. Consequently, where a citizen acquires immovable property from a non-VAT registrant, they save tax equivalent to 9% of the property value (i.e. 14% -5%). Additionally, citizens are entitled to a P1m exemption on the value of immovable property they acquire. The exemption is applicable on each property acquired i.e. it is not an annual exemption. Further, it is key to note that the same principles apply to individuals and companies. A company is considered as a citizen of Botswana if it is owned 50.1% or more by citizens.

Therefore, citizens can enjoy a lesser tax burden by purchasing a property from a non-VAT registrant seller. Additionally, they also enjoy a P1m exemption on the same properties and may not even pay a thebe in taxes!

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