aupracon
TAX SPECIALISTS
Consulting . Training . Compliance

Postal: P O Box 504899, Gaborone
Physical: Plot 76295 Gaborone North
Telephone: 393 9435 / 71 81 58 36
Email: jhore@aupracontax.co.bw

THE ROUGH TAX TREATMENT OF LUXURY CARS IN BOTSWANA

For one reason or the other, taxmen worldwide don't like luxury vehicles. This is evidenced by the strict rules they apply on such cars, both for VAT and income tax purposes. We will shed more light on this today. In this article, words importing the masculine shall be deemed to include the feminine.

Enter passenger vehicle

A passenger vehicle (ordinarily referred to as a luxury vehicle) is a technical term that is defined in the VAT Act as, 'a vehicle designed or adapted for the transport of nine or fewer seated persons, including a double cab vehicle but does not include a safari vehicle.' In this case, the critical aspect to pay attention to is the use of the words, 'designed or adapted,' as they basically point to the fact that a passenger vehicle should have been designed as such or adapted to be one. Therefore, whether a vehicle is a passenger or commercial vehicle is not determined by the usage to which it is put but the design or adaptation made. Simply put, station wagons, SUV, saloon cars and double cabs fall within the ambit of the term 'passenger vehicle.' However, it is important to note that a passenger vehicle does not include a 'safari vehicle' which is used by safari business operators.

Enter VAT restrictions

Having clarified what a passenger vehicle is in relation to VAT, let us now turn to the restrictions on the same. The VAT Act actually contains provisions that prohibit taxpayers from claiming an input tax on the purchase, lease, hire or importation of a passenger vehicle. On the other hand, the VAT Act solely permits a person in the business of 'dealing in, or hiring of,' passenger vehicles to claim input tax incurred on the same. This restriction will also extend to the car dealer if he acquires a passenger vehicle for senior staff or management. Technically, the dividing line on this matter is clearly on the supply or acquisition of the passenger motor vehicle itself that is not subject to input tax claims. However, VAT can be claimed on operating costs of the vehicle itself such as repairs, maintenance and insurance.

Enter Income Tax restrictions

The Income Tax Act, on the other hand, does not specifically address passenger vehicles per-se. However, this Act speaks of a motor vehicle which includes a station wagon but not a commercial vehicle. Looking at it closely, it is prudent to say a passenger vehicle defined under the VAT laws and the motor vehicle referred to in the Income Tax Act appears to be the same. Accordingly, for Income tax purposes such passenger vehicles are limited in terms of the cost which the taxpayer can claim capital allowances on. Technically, the Income Tax Act prescribes that a taxpayer can only claim capital allowances of not more that P175,000 on any passenger vehicle purchase. This basically means that if one acquires, say a Range Rover for their business for P900,000 the Act only allows them to claim capital allowances on P175,000. The same restriction applies where assets are acquired under finance lease arrangements.

Conclusion

Essentially, the stringent tax laws on vehicles mainly affect VAT registrants. Therefore, such taxpayers need to ensure that they carefully choose the type of vehicle to purchase as the cost of VAT maybe significant. Additionally, purchasing passenger vehicles also have an implication on income tax. Therefore, it might be beneficial if acquisition of passenger vehicles is mixed with commercial vehicles to minimise the tax impact.

Well folks, we hope that was insightful. As us the two Yours Truly say goodbye, remember to pay to 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 +26771815836. You can read more tax articles on our website, www.aupracontax.co.bw under the 'Tax articles' tab