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Namibian Budget 2018/2019 Commentary

High impact initiatives towards prosperity

"This budget calls on the collective support for all Namibians, and, more than ever before, the contribution of the private sector to the national development objectives." ***Minister of Finance, Hon. Calle Schlettwein, 7 March 2018***

Economic Overview

The fiscal consolidation policy implemented since 2016 resulted in early gains, but the journey continues.

The Minister early on in his speech noted that the 2018 budget comes at a time after the Namibian economy endured its most precarious phase. With the economy at a turning point the Minister tabled a budget aimed at further consolidation of non-core spending and the alignment of resources to priorities.

Budget deficit reduced by a cumulative 3% over the past two years and expenditure reduced from 42.8% of GDP in 2015/2016 to an estimated 38.7% in 2017/2018. The funding of a large budget deficit have however increased debt from 29.5% of GDP in 2015/2016 to an estimated 42.1% in 2017/2018. To stall and eventually reduce debt levels, the Minister wants to focus on the following five key priority areas: -

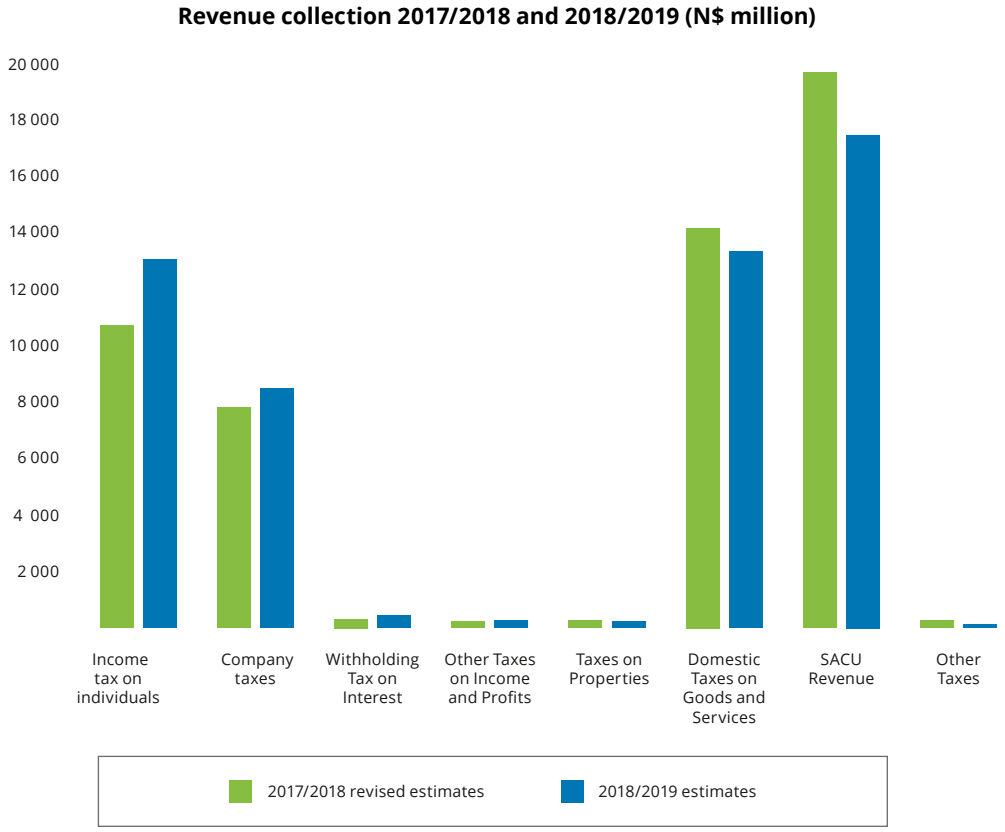
- Maintaining a gradual fiscal consolidation policy stance
- Providing targeted support to fledgling economic growth
- Protecting core spending in social sectors;
- Improve domestic resource mobilization through fair and equitable tax policy, efficient and effective tax administration; and
- Implementing supportive policies and structural reforms

In summary, total revenue was revised upward to N$56.7bn from N$ 56.4bn in the 2017/2018, due to better collections. This equates to 11.5% growth from N$50.8bn collections in 2016/2017, mainly due to better Southern African Customs Union (SACU) receipts and improved domestic revenue streams. Very interestingly, the Minister estimated a total of N$972.02 million collected in terms of the Tax Arrear Recovery Incentive programme initiated in 2017.

Total expenditure is revised to N$ 66.5bn for 2017/2018 – this comprises of a 3.5% once off increase to correct for arrears spending in the prior year and equates to 6.9% increase from N$ 62.2 billion of actual spending during the 2016/2017 year.

Based on estimated revenue and expenditure the budget deficit is estimated at 5.4% of GDP. The estimate is in line with the Mid-Year Budget Review of November 2017.

Revenue Collection



The tax changes are anticipated to generate about N$500 million in revenue, but will only become effective once gazetted. Expectations are that changes, apart from sin taxes, will be gazetted during 2019. Sin taxes are effective from 22 February 2018.

Oscar Wilde said: "Our ambition should be to rule ourselves, the true kingdom for each one of us; and true progress is to know more, and be more, and to do more."

Tax policy proposals

Manufacturing Tax Incentives

It is proposed that the current tax incentives be phased out to achieve equity and equal treatment of all manufacturers. The proposal seems to be based on the stand point that the incentives are only available to certain manufacturers. To some extent, we agree with this premise as food manufacturers are not generally allowed to be registered as manufacturers for tax purpose. However, there is some concern on the impact that the phasing out of manufacturing incentives could have on the long-term foreign investment and on industrialisation. Perhaps some reform of the allowances, rather than a phase out of all the incentives could still have some positive revenue impact and retain investment attractiveness. The Minister did not mention if the proposal will include any non-tax incentives.

In an effort to encourage business development and job creation, instruments will be introduced and developed to support SME's and start-ups. It is not clear what kind of instruments and/or benefits the Ministry is considering here. Furthermore, the Minister did not make mention of presumptive taxes for SME's that have been mentioned in previous budget speeches and that have been under investigation by the Ministry for some time now.

Repeal of Export Processing Zones

The Export Processing Zone Act will be repealed with a sunset clause for existing operators. It seems, it will be replaced by the Special Economic Zones Act. The abolishing of the Export Processing Zone Act does not completely come as a surprise in light of the recent blacklisting of Namibia by the EU. In the blacklisting the EU made reference to harmful preferential tax regimes, which may have included the Export Processing Zone Act. The Minister did not mention when the repeal will tax place and only noted that tax proposals are likely to become effective during 2019.

Local dividends

A local dividend tax of 10% for Namibian residents will be introduced to enhance the fairness of the tax system. Although the introduction of such a tax will broaden the tax base, we are concerned about the potential impact of future investments in shares and the promotion of a savings culture. A specific timing for the introduction of the local dividend tax has not been announced, but we do expect it to become effective during 2019.

Commercial activities of charitable, religious and educational institutions

Currently all income earned by registered religious, charitable and educational organisations of a pubic character whether or not supported by government grants are exempt from tax. The proposal will do away with the exemption on the income from commercial activities of such institutions. Careful consideration should be given to the impact this could have on institutions that are supporting government efforts through education, health care etc. where commercial profits are reinvested to achieve objectives of these institutions.

Profit tax on betting and gaming entities

A profit tax for betting and gaming entities will be investigated by the ministry. This proposal seems to be an increase in the tax rate for these entities from 32% to 37%.

Taxation of trusts

It is proposed that the "flow through" principle of taxation of trusts be abolished to harmonise the taxation of trusts in line with regional economies. In that case, all income from a trust would be taxed in the hands of the trust regardless of the type of trust (vested or discretionary) and beneficiaries would receive their distributions after tax.

Regionally we find that trusts are mostly taxed at a flat rate but still allowing the conduit principle. So the Minister may propose a flat tax rate for all trusts if the aim is to harmonize the Namibian treatment with the treatment in the region. However, this was not specifically mentioned by the Minister.

Essentially, this seems to be an anti-avoidance proposal where trusts are used for tax planning purposes to reduce tax liabilities. We therefore welcome this proposal from a tax fairness perspective, however while keeping the conduit pipe principle intact.

Deepening the current hybrid tax system

The Namibian tax system is sourced based, i.e. Namibian and non-Namibian residents are taxed on all income derived from a source within or deemed to be within Namibia. The deeming provisions essentially, allow for certain foreign earned income to be taxed in Namibia.

It is proposed that the deeming provision be deepened to bring in more foreign income earned by Namibian residents into the Namibian tax net. In principle, we have no objection to this proposal. However, we recommend that tax credit relief provisions be introduced to avoid double taxation of the same income, especially in the light of Namibia's limited tax treaty network.

Individual tax rates

The Minister proposed a change to the individual tax rates, for the first time since 2013.

The Minster did not specifically mention a change in the brackets to take into account fiscal drag except for the introduction of a new bracket for income over N$2.5 million. The proposal is to reduce the tax rate in the lower tax bracket from 18% to 17%, to increase the rate for the current top bracket from 37% to 39% and to introduce a new tax bracket for income over N$2.5 million at a tax rate of 40%

On the assumption that the brackets will not change, we expect the new tax tables to be as follows:

Current tax tables	
Taxable income	**Rate of tax**
N$ 50 001 - N$ 100 000	N$ 0 + 18%
N$ 100 001 - N$ 300 000	N$ 9 000 + 25%
N$ 300 001 - N$ 500 000	N$ 59 000 + 28%
N$ 500 000 - N$ 800 000	N$ 115 000 + 30%
N$ 800 001 - N$ 1 500 000	N$ 205 000 + 32%
Over N$ 1 500 001	N$ 429 000 + 37%

Proposed tax tables	
Taxable income	**Rate of tax**
N$ 50 001 - N$ 100 000	N$ 0 + 17%
N$ 100 001 - N$ 300 000	N$ 8 500 + 25%
N$ 300 001 - N$ 500 000	N$ 58 500 + 28%
N$ 500 001 - N$ 800 000	N$ 114 500 + 30%
N$ 800 001 - N$ 1 500 000	N$ 204 500 + 32%
N$ 1 500 000 - N$ 2 500 000	N$ 428 500 + 39%
Over N$ 2 500 001	N$ 818 500 + 40%

The aim of these proposed changes is to relieve the tax liability for low income earners and reinforce the progressive tax system. This objective seems to be achieved as an individual earning N$75 000 per annum will save N$250 per annum (saving of 0.33%) while an individual earning N$ 3 million per annum pay N$ 34 500 more per annum (increase in tax of 1.15%).

Introduction of VAT for listed asset managers

Currently fees for listed asset managers are exempt from VAT. It is proposed that these fees be standard rated. This amendment will result in a reduction of costs as asset managers will be entitled to claim input tax on their costs. However, management fees will become subject to VAT and non-registered investors will have an additional 15% costs.

Introduction of VAT on property share transactions

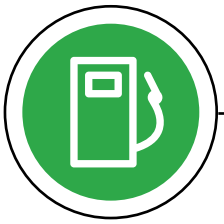
It is proposed, that the sale of shares or member's interest in a company / close corporation that owns commercial property will become subject to 15% VAT. It is not clear whether the purchase consideration will have to be apportioned where the company/ close corporation owns other assets as well.

Sin taxes

The 2018/2019 excise duty rates were reviewed in line with the provision of the SACU Agreement. The increases are between 8.5% and 10% and they will be introduced retrospectively with effect from 22 February 2018. The new excise duty rates increases are as follows:

- Malt beer 10.0%
- Unfortified wine 8.5 %
- Fortified wine 6.0 %
- Sparkling wine 10.0 %
- Ciders & alcoholic fruit beverages 10.0 %
- Spirits 8.5 %
- Cigarettes 8.5 %
- Cigarette tobacco 8.5 %
- Pipe tobacco 8.5 %
- Cigars 8.5 %

The Minister will also introduce an additional 5% national "sin" tax on alcohol and tobacco products for national revenue purpose. This seems to be an additional tax, outside the SACU pool levy. The question is whether this is agreed with other SACU members in terms of the SACU agreement.



Fuel Levy

The Minister further announced an increase in the fuel levy by 25 c/l for all levied fuel products.

Export levies

The Minister announced the expansion of export levies (introduced in 2017) to include agricultural, forestry and game products and other mining products currently not covered. No further details regarding the extent, proposed rates and timing have been provided.

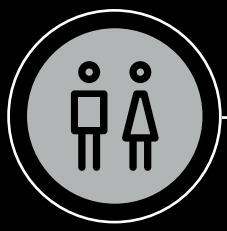
Tax administration reforms

Some of the main tax administration reforms for 2018/2019 will include:

- The establishment of the Namibia Revenue Agency by 1 March 2019;
- The roll-out of the Integrated Tax System by July 2018;
- Developing regulations for small businesses which are currently not registered for tax purposes and to determine the rates payable by such;
- Leveraging regional and international tax cooperation in respect of transfer pricing; and
- Improving the programme of taxes in arrears, after the lapsing of the Tax Arrears Recovery Program on 11 March 2018.

The Minister also commented on the recent blacklisting of Namibia by the European Union and noted that Namibia is engaging with those authorities to ensure the removal from the list. He also reiterated the importance of international tax co-operation and exchange of information. In this regard, we hope to see some initiatives in line with the base erosion and profit shifting (e.g. country by country reporting and exchange of information agreement) measures in the near future.

Contacts



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