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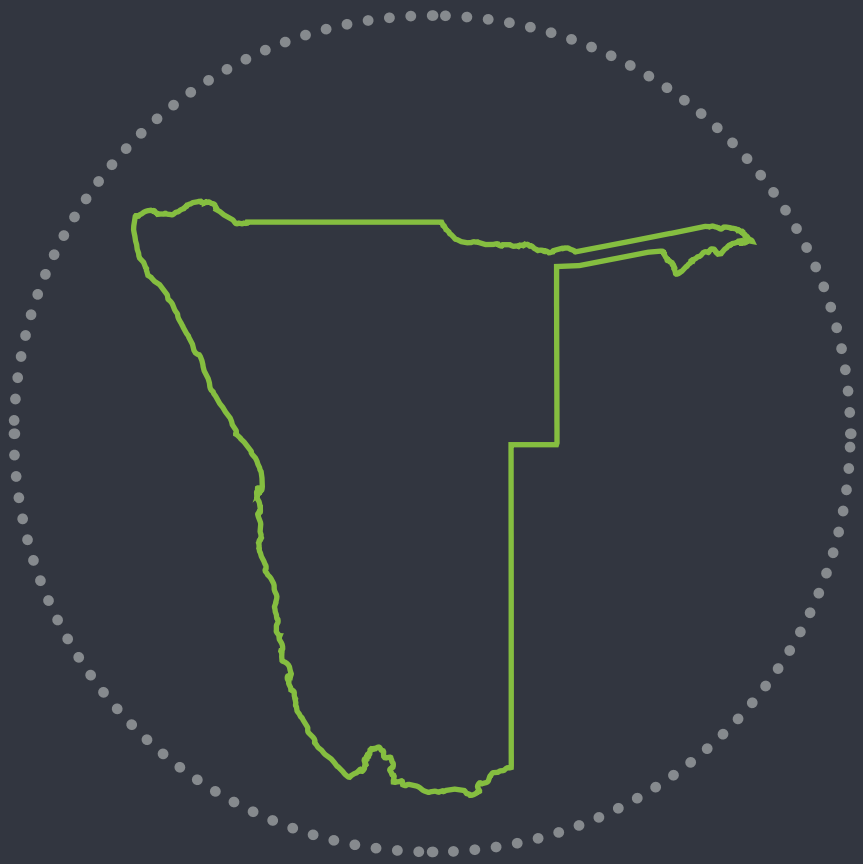
Sowing seeds for renewal and growth

Deloitte commentary on Namibia Budget 2019/20

Making an impact that matters



Budget 2019/20

"This budget proposed to make money available to buy things and these things should improve all our lives. However, we must do that honestly, diligently, with the common good as our only objective in mind.".

Minister of Finance
Hon. Calle Schlettwein, 27 March 2019

Economic overview

The Minister started off his 2019/2020 budget tabling by noting that the current economic situation has caused hardship to many Namibians, but matters could have been worse was it not for fiscal consolidation and austerity measures implemented.

Budget deficit narrowed from 8.1% in 2015/2016 to 4% in 2018/2019 and according to the Minister the intensity of the recession has eased and has 'almost bottomed out'.

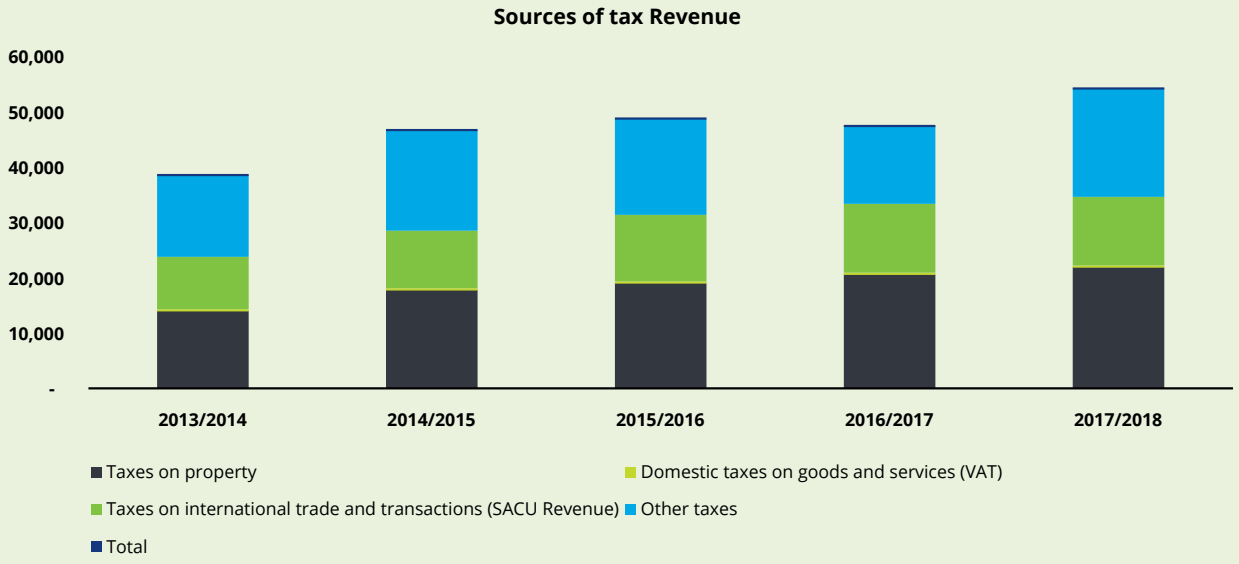
Over the past four years a number of structural policy reforms have been implemented to strengthen resilience. Some of these are – mid-year budget reviews, public-private partnership legislative framework, the Integrated Tax Administration System, domestic asset requirements, policies to advance financial inclusion, major infrastructure investment e.g. port, road and water sectors, to name but a few.

If no further policy measures are implemented, gross domestic product ("GDP") growth is estimated at 0.2% in 2019 with an increase of 1% by 2021. However, if supportive policy measures are implemented on a timely basis, the Minster expects this growth to be 1.2% in 2019 and 2.2% by 2020.

Revenue collection

Revenue for 2017/2018 was 4.3% better than budgeted at N$58.8 billion. For 2018/2019 revenue is projected at N$ 56,7 billion, with no shortfall expected. For 2019/2020 revenue is estimated at N$ 58.4 billion, representing 29.7% of GDP.

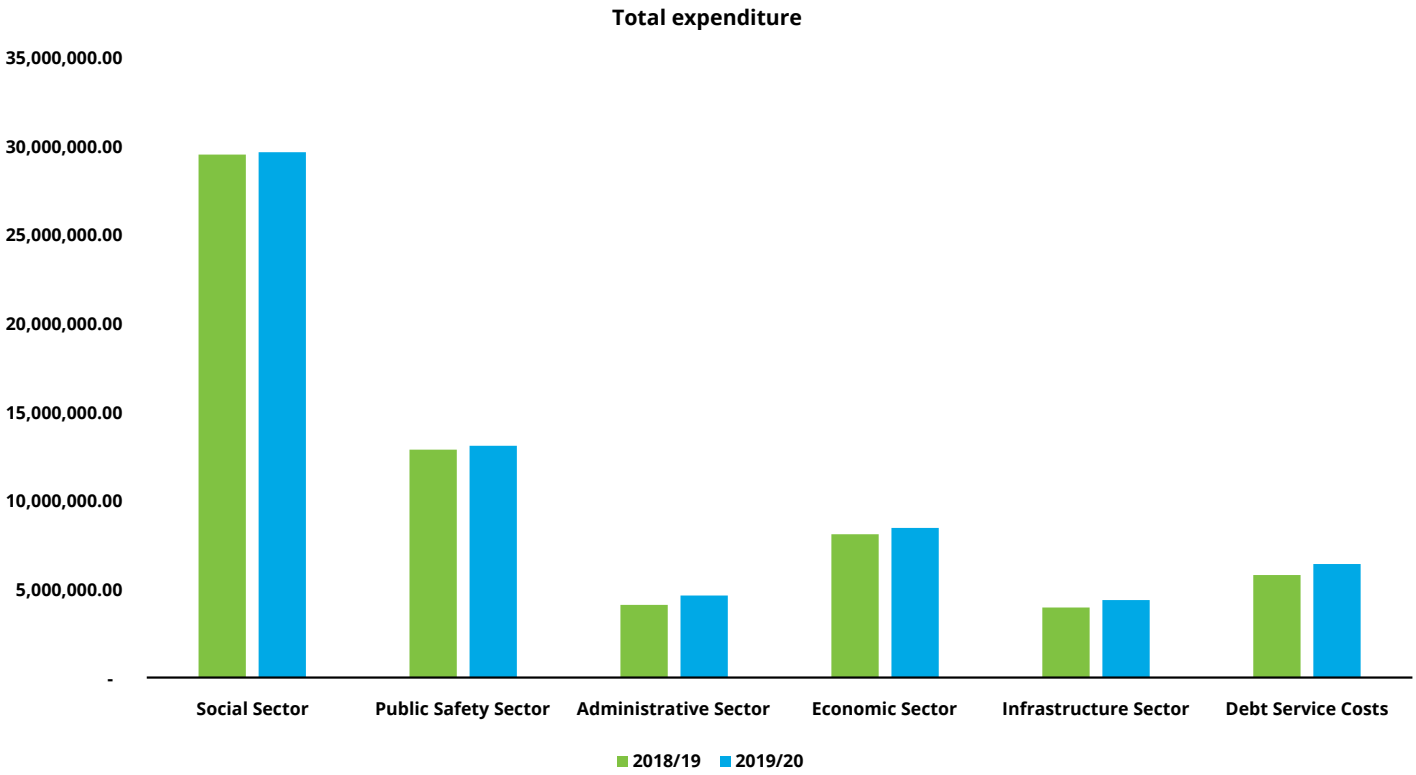
Based on estimated revenue and expenditure the budget deficit is estimated at 4.1% of GDP, compared to 4.4% in 2018/2019.



Expenditure and debt

Total expenditure (comprising development, operational and interest) for 2018/2019 is expected to be N$ 64.8million and budgeted at N$ 66.5 million for 2019/2020. Of this total, the development budget is expected to increase by 42.2% in 2019/2010 to simulate growth.

Government borrowing in 2018/2019 was 46.3% of GDP with an expected peak of 52.3% by 2021/2022. Interest payment will average N$ 6.7 million.



Tax proposals

Tax proposal for tabling

The Minister announced various tax changes in last year's budget and we have seen the first draft income tax bill in respect of those proposals. The manner in which most of those proposals were drafted had unintended consequences which resulted in consultations with various stakeholders to mitigate them. To avoid a slowdown in the economic recovery, the Ministry of Finance has now reversed some of the tax proposals. However, others are in still in the pipeline and will be finalised for tabling during 2019/2020. The Minister expects a N$400 million increase in tax revenue as a result of these proposals. The tax proposals still in the pipeline are -

Manufacturing Tax Incentives

In 2019, it was proposed that the current tax incentives for manufacturers and exporters of manufactured goods be phased out to achieve equity and equal treatment of all manufacturers. We still have some concerns on the impact that the phasing out of manufacturing incentives could have on long-term foreign investments and on industrialisation. As indicated previously, we would have rather wanted to see a reform of the allowances (e.g. reduction of percentages or changes in the duration that they may be claimed), rather than a complete phase out of all the incentives.

Repeal of Export Processing Zones

The Export Processing Zone Act will be repealed with a sunset clause for existing operators. The Minister has not provided details on the sunset clause. The Export Processing Zone Act will be replaced by the Special Economic Zones Act, which was also not discussed in any detail.

Local dividends

A local dividend tax of 10% for Namibian residents will be introduced. The objective of the proposal is to enhance fairness and equity of the tax system between local and foreign investors who are already subject to a withholding tax on dividends. Detailed submissions have been made to the Ministry of Finance in respect of the draft legislation relating to local dividends. Concerning points at this stage are the definition of dividends and the inadequate exemptions for non-wholly owned subsidiaries.

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 tax exemption on the income from commercial activities of such institutions. The objective of the proposal is to ensure fairness and equity between persons carrying on business through charitable, religious and/or educational organisations and those that carry on business through conventional business organisations. This objective could be achieved with carefully worded definitions. Currently the draft proposal has unintended consequences and could place more pressure on government to support efforts through education, health care etc. where commercial profits are reinvested to achieve objectives of these institutions.

Deepening the current hybrid tax system

With this proposal, the Minister intents to tax all income (both local and foreign) derived by Namibian residents. 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. Essentially Namibia is currently on a hybrid tax system.

This proposal as contained in the first draft income tax bill, appears as if the Namibian tax system would change from a hybrid tax system to a residency tax system. In this regard, other consideration to be taken into account are proper tax credit relief provisions especially in the light of Namibia's limited tax treaty network.

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. Essentially the intention with this proposal is to tax trading trusts. However, we have some concerns over the potential impact that the current draft wording could have on the unit trust industry, existing investments structures, that were set up in part due to local investment regulations, employees' trusts, community trusts and the like. One must also take into account the fact that the proposed amendment will not come into effect in isolation and would need to be considered together with the dividends tax proposal. Thus, overall, the proposal could have a severe impact on local investments.

Introduction of VAT on services provided by listed asset managers

The 2018/2019 proposal of VAT at 15% on services provided by listed asset managers remains on the table.

Introduction of VAT on property share transactions

The 2018/2019 proposal of VAT at 15% in respect of the sale of shares or member's interest in a company/close corporation that owns commercial immovable property also remains on the table. It is not clear whether the purchase consideration will have to be apportioned where the company/close corporation owns other assets as well. In 2018 we had a concern around the practicality of this proposal and our concern remains.

New tax proposals

In addition to the tax proposals announced in the previous financial year, the Minister announced the following other proposal that are likely to be tabled during 2019/2020 –

Contributions to retirement funds

It is proposed that the tax deductibility of retirement fund contributions, currently N$ 40 000 per annum, be increased to 27.5% of income, with a maximum of N$ 150 000 per annum. This proposal is welcomed as the contribution was last changed (from N$ 30 000 to N$ 40 000) more than seven years ago.

It is not clear if the pension and provident contributions are also included in this proposal, but we would expect as much.

Non-tax deduction of fees paid to non-residents

It is proposed that fees (services and royalties) and interest paid to non-residents be disallowed as a tax deduction until the taxpayer has proven that it paid the relevant withholding tax relating to these fees and interest charges. We would encourage a practical application of the new proposal for example a reconciliation schedule to withholding tax payment remitted to the Inland Revenue in support of the deduction being claimed in respect of these fees.

VAT on sugar

VAT on sugar was changed from 15% to 0% in May 2010. The Minister now proposed that the rate returns to 15% and we suspect this change is to replace the proposal of a sugar tax that was mentioned in 2017.

Export levy

The Ministry of Finance announced an expansion of export levies to include other specific agricultural, forestry and game products and other mining products (currently not covered). In particular,

- Export levy of dimension stones will increase from the current 2% to a maximum of 15%; and
- Export levy of 15% for timber will be introduced.

Sin taxes and other levies

Excise duties on alcohol and tobacco have increased from 21 February 2019, as follows:

- A can of beer increase by 12 cents to N$ 1.74
- A 750ml bottle of wine will increase by 22 cents to N$ 3.15
- A 750ml bottle of sparkling wine increase by 84 cents to N$ 10.16
- A bottle of whiskey will increase up by N$ 4.54 to N$ 65.84
- A pack of 20 cigarettes will increase by N$ 1.14 cents to N$ 16.66
- A typical cigar will increase by about 64 cents to N$7.80

Other levies and duties that will be introduced and implemented once gazetted are:

- Fuel levies will increase by 25 cents per litre for all levied fuel products; and
- New environmental levy items on the importation of lubricant oils (N$ 1.80 per litre), plastic carrier bags (no rate mentioned) and disposable batteries (5% of the cost of primary cells and batteries)

Tax Rates that remain unchanged

According to the Minister, an aggressive tax policy during economic downturns is seen as counterproductive and we are therefore not seeing any changes to:

- Individual Income Tax Rates
- Corporate Income Tax Rates
- Value Added Tax Rate
- Withholding Tax Rates
- Transfer duties
- Stamp duties
- Land Tax

The proposed individual tax rate changes mentioned in the 2018 budget are therefore not considered anymore and individual taxpayers can breathe a sigh of relief.

Previous tax proposals not mentioned

There were no mention of two critical tax proposals contained in the first draft income tax bill, namely: -

- the decrease in wear and tear rates from 3 years to 5 years; and
- the limitation of the carryforward of tax losses. However, the Minister did announce in his mid-term budget that the current provisions in respect of tax losses would be maintained. In essence tax losses would no longer be limited as proposed.

Tax administration reforms

Some of the main tax administration reforms for 2019/2020 will include -

- The establishment of the Namibia Revenue Agency by October 2019 – the initial date for the establishment was 1 March 2019;
- Continued roll-out of the Integrated Tax System;
- Improving tax administration to ensure compliance with tax laws and improve tax collection;
- Leverage off regional and international tax cooperation to enhance technical capacity in tax administration such as transfer pricing and illicit financial flows; and
- Scaling-up the programme for targeted recovery of tax arrears – we expect something similar to the previous tax amnesty programme, but with more restrictions.

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