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Namibian Mid-Year  
Budget Review –  
2015/2016  
Newsletter



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In this edition of our newsletter we summarised the 2015/2016 Mid-year Budget Review tabled by the Honourable Minister of Finance, Calle Schlettwein, on 3 November 2015.

## Budgeted revenue and expense breakdown

The Minister noted that although the Namibian economy showed strong growth in 2014 (6.4%), predictions are that the growth will moderate to 5% in 2015. The Minister attributed the moderation to major construction projects that are reaching completion. In 2016, growth is expected to reach 5.5% mainly due to mega mining sector investments. For the 2015-2017 period the average growth is estimated to be 5.3%

Total estimated revenue for 2014/2015 was N\$52.4 billion with the final revenue number being N\$49.9 billion. Estimated revenue for 2015/2016, in March 2015, was budgeted to be N\$58.4 billion (of which tax revenue was expected to be N\$ 55.8 billion) but has been adjusted downwards to N\$55.5 billion (a 4.9% decrease). Total expenditure for the mid-year amounted to N\$24.6 billion, a 36.8% execution rate (2014:46.4%). As a percentage of GDP, revenue will moderate to 29.2% in 2016/2017 (35.1% in 2014/2015).

For 2016/2017, the revised total revenue is estimated to be N\$56 billion (down by N\$7.05 billion). The biggest portion (N\$3 billion) of the downward revision relates to a repayment of the SACU Revenue pool deficit and the revised lower projections of revenue from the pool going forward.

## Achieving fiscal consolidation

The Minister noted the following measures to achieve the fiscal stance set for the 2015-2017 period:

- Spending cuts of 42% to nine non-core and least priority expenditure e.g. subsistence and travel allowance, transport, overtime, vehicles, office furniture etc.
- Postponement of non-productive capital expenditure e.g. construction of new office buildings where no contractual commitments are made yet.
- Downward adjustment to estimated transfers to SOEs that are not related to priority development projects.
- Alternative means of project financing through private investment and public-private partnerships, especially in the energy sector.
- Implementing of public sector wage bill management reforms.

These cost saving measures are estimated to realise N\$4 billion for 2015, N\$4.1 billion for 2016 and N\$3.8 billion for 2017.

## Tax policy proposals

The Minister re-iterated that tax policies should increasingly contribute to revenue raising and that the tax administration reforms should improve the yield of revenue streams. The Minister therefore intends to table the Export Levy Bill and the first phase of the Environmental Tax Bill in **the next session** of Parliament.

### Export levy

Export levies will be introduced on the exportation of raw materials and minerals with rates between 0% and 2%. The levy is aimed at the promotion of domestic value-addition in the primary commodity and natural resources sectors.

### Environmental Levy

Environmental Levies are to include carbon taxes, levies on light bulbs and motor vehicle tyres. The rates have not been provided and will be published in the government gazette before they will become effective.

In the **2016/2017 financial year**, the Minister intends to:

- Investigate the introducing of a **solidarity tax**.
- Investigate the modalities for the introduction of a **presumptive tax**.
- Implementation of a programme for targeted **recovery of arrear taxes**.
- Leverage international tax cooperation for specific **tax administration areas** e.g. tax avoidance, transfer pricing etc.
- Formulation of **tax treaty policies** and review of the treaties that are in place – the aim is to promote fair taxation arrangement between the relevant parties.
- Table the **Namibia Revenue Agency Bill** to transform Inland Revenue Department and Customs & Excise Directorate to an autonomous revenue agency.

## Solidarity tax

Solidarity tax is a tax that aims to provide funding towards a unifying or solidifying project. It is generally calculated based on a percentage of the taxpayer's tax liability but could also take on different methods e.g. Tunisia (on tourist), Nigeria (to cover custom duty losses). A solidarity tax normally has an exit period when the objective of the tax has been reached.

The Minister intends to introduce the Namibian Solidarity Tax as a withholding tax on income at a graduated scale for individuals and a flat rate for juristic persons. The intention is that income earners above the average per capita income (USD5 700 i.e. around N\$78 000) should contribute while those with incomes below that should benefit from the tax. The Minister estimates that around N\$ 600 million will be raised annually.

Once the Gini-coefficient reaches 0.4 the Fund would have reached its objective and the tax will be abolished. The Gini-coefficient is a measure of the inequality of income distribution. In 2009/2010 the Namibian Gini-coefficient was estimated at 0.58.

The tax will accrue to a dedicated fund managed by the Ministry of Finance and the Office of the Prime Minister. Activities relating to the fund will be co-ordinated by the Ministry of Finance, the Ministry of Poverty Eradication and Social Welfare and the National Planning Commission.

Criteria for the allocation of funds will be developed for targeted activities. This would be a very important aspect of the success of this tax. Generally any tax that is collected needs to be effectively recovered and the funds effectively utilised in funding government operations and projects. More so for a tax that has a specific aim like the solidarity tax would have. There should therefore be very clear projects and activities for which the funds that are collected be utilised.

## Presumptive tax

A presumptive tax is a where the tax on the income of the business is assumed. Different methods exist for example the standard method and the estimated method. There are benefits to and challenges of such a tax. The main benefits are that it is a simplified tax system, compliance cost of the taxpayer is reduced and it does provide for a stable source of income for government. Some challenges are that it could be seen as an unfair tax system as expenses that differ from taxpayer to taxpayer are ignored, taxpayers cannot carry forward tax losses and generally the individual circumstances of a taxpayer are ignored. There is a presumptive tax committee established in the Ministry of Finance that is investigating the extent, scope and introduction of this tax.

## Tax Treaties

Tax treaties will be reviewed and potentially re-negotiated where it is found that the agreement has unfair taxing arrangements for Namibia.

The information contained in this guide is for general guidance only and is not intended as a substitute for specific advice in considering the tax effects of particular transactions. While every care has been taken in the compilation of the information contained herein, no liability is accepted for the consequences of any inaccuracies contained in this guide.

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Designed and produced by Creative Services at Deloitte, Johannesburg. (Namibian/vee)