

Namibian TAX Alert

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2007 BUDGET NEWSLETTER

In this newsletter, we comment on the tax announcements made by the Honourable Minister of Finance, Saara Kuugongwela-Amadhila, in her Budget Speech earlier today.

General

The Minister noted that tax collections were higher than expected for the past year and this positive trend is expected to continue in 2007/08. This is attributed to economic growth in certain sectors as well as ongoing efforts to optimise tax collections through improved tax law enforcement. Measures implemented such as forensics tax audits and training of tax administrators have apparently yielded positive results. The Minister noted however that a significant decrease in revenue from the SACU revenue pool is expected from 2010.

Tax Tables

The Minister announced an increase in the tax threshold from N\$ 24 000 to N\$ 36 000. This will increase take home salaries or wages and the announcement is welcomed especially for the lower income earners. No other changes to the tax brackets or tax rates were announced.

Contributions to Funds

In an effort to encourage savings and to provide for financial security after retirement, the Minister has announced an increase in the annual aggregate deduction for contributions made by an individual to pension funds, provident funds, retirement annuity funds and educational policies for children. The annual allowable aggregate deduction will be increased from N\$ 30 000 to N\$ 40 000. Presumably this will apply from 1 March 2007.

Withholding tax on Interest

The Minister noted the introduction of a withholding tax on interest at a rate of 10%. It is not clear whether, as previously announced, this withholding tax will be restricted to interest paid by Namibian financial institutions.

Interest on tax arrears

The Minister announced a change in the calculation of interest on outstanding tax amounts, from compound to simple interest. This is to be welcomed as it can significantly reduce the interest cost for taxpayers. However, it is unfortunate that the rate of interest (currently 20%) was not reduced to be more in line with the current bank lending rate.

Tax Tribunal

It was announced that the first chairman of the Tax Tribunal has been appointed and the first case will be heard at the end of March 2007. The Tax Tribunal was introduced in 2005 to handle "lower value" tax cases, in order to expedite cases and relieve the burden on the Ministry of Justice.

Exchange Control Relaxations

The Minister stated that Government will continue with the gradual process of exchange control relaxations in line with other Common Monetary countries. The relaxations announced for 2007 are:

- Special exemption for Oil and Gas companies from the requirements of operating Customer Foreign Currency (CFC) Accounts.
- Companies involved in international trade may now operate a single CFC account as opposed to the current requirement of multi-CFC accounts.
- For Namibian importers the threshold for 'cash with order' payments has been increased from N\$ 250 000 to N\$ 500 000 with immediate effect.
- The required shareholding in foreign entities by Namibian corporate investors that invest outside the CMA has been relaxed from majority shareholding (more than 50%) to 25%.

Excise Duties

In line with the Namibian Government's commitments under the 2002 SACU agreement, the following excise duty increases have been announced and these are already in force from 21 February 2007.

- Unfortified wine – 8.5%;
- Fortified wine – 10%;
- Sparkling wine – 10%;
- Ciders and alcoholic fruit beverages – 8%;
- Spirits – 10.5%;
- Cigarettes – 10.71%;
- Cigarette tobacco – 5.32%;
- Pipe tobacco – 5.76%; and
- Cigars – 10.46%

Amendments Acts

The Minister noted the following with regard to the various Tax Amendment Acts:

- VAT Amendment Act – the Act is currently before Parliament (see our Newsletter 1/2007);
- Income Tax Amendment Act – this Act is scheduled to be brought before Parliament during the 2007/2008 financial year; and
- Transfer Duty Amendment Act - this Act is scheduled to be brought before Parliament during the 2007/2008 financial year.

Based on previous Budget Announcements, we expect the following amendments to be addressed in these Amendments Acts:

- Ring fencing of losses incurred by individuals on secondary trades;
- Withholding tax on interest;
- Taxation of unit trusts;
- Reduction of deductible allowances; and
- Transfer duty in respect of the sale of shares or members interest of property owning entities.

This newsletter is designed to keep readers abreast of developments and is not intended to be a comprehensive statement of the law. It should not be relied upon as a substitute for specific advice in considering the tax effects of particular transactions. No liability is accepted for errors or opinions contained herein.

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