



## Namibian TAX Alert

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### FRINGE BENEFIT TAX RATE - LOANS

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Practice Note 6 of 2003 issued by Inland Revenue stipulates that the fringe benefit interest rate shall be “1% per month as long as the prime rate charged by financial institutions, remains below 15%”. In the light of the practice note and with the reduction in the Bank of Namibia’s repo rate on 18 December 2008 and the consequent reduction in the prime interest rate (14.75%), the fringe benefit rate has changed from 15% per annum to 12% per annum.

Discussions with Inland Revenue on 27 January 2009 also confirmed that the fringe benefit interest rate should now be 12% per annum. Please also note that Inland Revenue will not issue an updated practice note, as they believe Practice Note 6 of 2003 caters for the change.

The practice note effectively only provides for two rates i.e. 15% per annum (if the prime interest rate is above 15%) and 12% per annum (if the prime interest rate is below 15%).

To illustrate the change, we have calculated the taxable value per month of a low interest rate loan and an interest-free loan:

#### **Interest-free loan<sup>1</sup> granted by employer to employee**

Outstanding loan amount at e.g. 30 January 2009	N\$ 10 000
Interest rate charged by employer per month	0%
Taxable value per month (10 000 * (1% - 0%))	N\$ 100 <sup>2</sup>

<sup>1</sup>[Excluding casual loans not exceeding N\$ 3 000 and study loans for an employee’s own studies.]

<sup>2</sup>[Amount to be included in taxable income.]

**Low interest rate loan<sup>1</sup> granted by employer to employee**

Outstanding loan amount at e.g. 30 January 2009	N\$ 10 000
Interest rate charged by employer per month	0.5%
Taxable value per month (10 000 *(1% - 0.5%))	N\$ 50 <sup>2</sup>

<sup>1</sup>[Excluding casual loans not exceeding N\$ 3 000 and study loans for an employee's own studies.]

<sup>2</sup>[Amount to be included in taxable income.]

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