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Tax Alert

New employee tax rules from 1 July 2026 — practical payroll and benefit considerations

The Income Tax Act, 2026 and the Tax Administration Act, 2026 came into operation on 1 July 2026. In our previous alert, we highlighted key high-level changes affecting individuals and employers. This follow-up alert focuses on practical employee tax matters, including employment income, non-cash benefits, lump sum payments, withholding directions, employee share schemes, payroll treatment, and supporting documentation.

Key practical changes

The new rules require employers to review how employee remuneration is identified, valued, taxed and reported through payroll. Employment income is broadly defined and includes both cash and non-cash remuneration. Certain employment-related lump sums require specific review before payment, and employment costs are deductible only when paid.

The changes are particularly relevant to employers providing housing, motor vehicles, school fees, utilities, employee loans, tax-free remuneration, employee share benefits, gratuities, severance pay, retrenchment packages or other non-standard employee benefits.

Employment income — broad scope

Employment income includes salary, wages, leave pay, payment in lieu of leave, overtime pay, fees, stipend, commissions, bonuses, allowances, reimbursements, non-cash benefits, gratuities, severance pay, retrenchment payments, compensation for loss of employment, pensions, annuities and employee share scheme benefits.

Employers should ensure payroll systems capture all forms of remuneration, including benefits provided directly by the employer or indirectly through an associate of the employer. A benefit does not fall outside PAYE simply because it is not paid in cash.

Let’s talk

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Non-cash benefits

Payroll valuation and timing

Non-cash benefits are included in employment income in the pay period in which the benefit is provided. Employers should review how benefits are identified, valued and captured in payroll.

Housing

Employer-provided housing is a taxable benefit. The valuation depends on the type of housing provided.

- Where the employer leases the property, the value is the rent paid by the employer.
- Where the property is employer-owned and rateable, the value is based on 10% of the rateable value, apportioned to the relevant pay period.
- Where the property is non-rateable or unvalued, the value is based on 10% of a capital valuation. The capital valuation is determined with reference to floor area, using P2,500 per square metre, subject to possible reduction to not less than P1,700 per square metre.

The housing benefit value is limited to the BURS table percentage of employment income, reduced by any amount paid by the employee.

Employers should retain lease agreements, rental invoices, valuation roll support, floor area records, valuation support, and records of employee contributions.

Motor vehicles

A motor vehicle made available for an employee's private use is a taxable benefit. The taxable value is based on 10% of the cost or fair market value of the vehicle including any maintenance or running costs paid by the employer, divided across the relevant pay periods.

The benefit applies where the vehicle is available for private use. It is not necessary for the employee to use the vehicle privately on a particular day for the benefit to be relevant. Employers should retain records of vehicle cost or fair market value, allocation of vehicles to employees, the period during which the vehicle is available, private-use restrictions, employee contributions and running costs borne by the employer.

School fees

School fees paid, borne or reimbursed by an employer for an employee's child, relative or dependent are taxable. The value is the higher of the amount paid, the amount reimbursed, or the market value of the benefit.

Employers should track direct payments, reimbursements, and contractual entitlements to education benefits.

Utilities

Utilities paid or reimbursed by an employer are taxable where they relate to the employee's private use. This includes telephone, water, electricity, internet and similar costs. Employers should separate business costs from private employee benefits.

Employee loans

Interest-free or low-interest employee loans give rise to a taxable benefit. The taxable value is the difference between the interest charged to the employee and interest calculated at the market lending rate. The market lending rate is linked to the Bank of Botswana Monetary Policy Rate prevailing on 1 July of the tax year.

Employers should review employee loan balances, interest rates, repayment terms and annual market-rate adjustments.

Debt waiver

Where an employer waives or writes off an employee debt, the amount waived is taxable as employment income. Debt forgiveness arrangements should be reviewed before being processed.

Infrequent or irregular benefits

Infrequent or irregular non-cash benefits not exceeding P1,300 may be disregarded. This should not be applied to regular allowances, recurring benefits, structured remuneration, or benefits forming part of an employee’s contractual package.

Examples may include minor once-off gifts, festive hampers, low-value vouchers or occasional staff welfare items, provided the benefit is infrequent or irregular and does not exceed the prescribed threshold.

Staff passage and travel benefits

Employer-paid airfares and passage benefits should be reviewed under the new Income Tax Act. The new rules limit the exclusion to travel provided at the commencement and termination of employment, for the employee, spouse and dependent children, between the employee’s place of origin or recruitment and place of employment.

This contrasts with the previous treatment, where staff passage benefits were often considered by reference to contractual obligations, particularly in expatriate arrangements. Accordingly, routine home leave, annual passage, family airfares and other private travel benefits should not be assumed to remain non-taxable unless they fall within a specific exclusion.

Employers should review expatriate contracts, secondment letters and travel policies to ensure tax treatment aligns with the new legislation.

Employee share schemes and equity-based incentive

- Employee share scheme benefits are now expressly included in employment income and giving rise to PAYE obligations.

- Employers should review all arrangements under which employees receive share- linked or equity-related incentives including options, restricted shares, performance shares, phantom shares, cash-settled share awards, deferred bonus awards or similar incentives.

- This review should extend to plans administered by foreign parent companies or other group of entities. Participation by Botswana-based employees in offshore does not remove the need to assess the Botswana payroll and PAYE implications.

- Employers should identify the key features of each award including;
  - the type of award granted,
  - the grant, vesting, exercise, settlement date,
  - whether the award is share-settled or cash-settled,
  - Any consideration paid by the employer,
  - The taxable value of the benefit,
  - Whether the cost is recharged to the Botswana employer; and
  - the applicable PAYE withholding tax obligation.

Given the cross-border nature of many employee share plans, employers should ensure effective coordination between HR, payroll, finance and tax teams to obtain timely information required for Botswana payroll reporting and tax compliance.

Residual benefits

Benefits not specifically listed may still be taxable as residual benefits. The value is the higher of the cost to the employer, the amount reimbursed or the market value of the benefit. Employers should review other employee benefits, reimbursements, privileges or payments that have value to an employee.

Terminal benefits

Gratuities, severance, retrenchments packages

- The new rules are a significant change from the previous expatriate contract gratuity regime.
- Under the previous regime, expatriate gratuity relief was commonly linked to fixed-term employment contracts. Many employment contracts were drafted around that treatment, with the exempt portion depending on whether the gratuity related to the first, second or third contract, subject to minimum service and contract wording requirements. That approach should not be assumed to continue under the new Act.
- Under the new framework, the 50% concession applies to qualifying approved service gratuities or severance payments. Where a qualifying amount is not invested in an approved retirement fund, one half may be excluded from employment income. The remaining half is taxable when payable, although spreading over three annual instalments may be available where this reduces the employee's tax liability.
- The concession should not be applied automatically to every end-of-contract gratuity. In particular, a gratuity paid on renewal or extension of a fixed-term contract should be reviewed carefully where employment continues. If there is no genuine termination or qualifying cessation event, the payment should not be treated as qualifying for the concession without specific review.
- The approved service gratuity rules include conditions that may not align with historic expatriate contract gratuity arrangements, including minimum service requirements, limits based on weeks of pay for each year of service and an overall cap. Employers should therefore review current contracts before making gratuity payments, especially where contracts are renewed or extended.
- This change may affect more than payroll. Employers may need to reconsider contract duration, renewal clauses, retention arrangements, localisation plans, tax equalisation clauses and the commercial cost of expatriate employment packages. Employees may also reassess whether to remain in employment for longer periods if the new treatment produces a different after-tax result.
- Employers should build sufficient time into exit, renewal and settlement processes to confirm the correct tax treatment and, where required, obtain a BURS withholding direction before payment.

BURS withholding directions for lump sum payments

- Certain lump sum payments require a withholding direction from BURS before payment. These include termination of payments, gratuities, compensation for loss of employment, superannuation, and retirement-related lump sums.
- Employers should apply to BURS at least 14 days before making the relevant payment. This timing should be built into exit, retirement, and settlement processes. Requests for BURS directions should not be left until payroll cut-off.

Tax-free pay, net-of-tax clauses and tax equalisation

- Tax-free remuneration, net-of-tax clauses and tax equalisation policies should be reviewed. These arrangements may require gross-up calculations and may create additional employer tax exposure where the employer has agreed to bear the employee's tax cost.
- This is particularly relevant for expatriates, senior employees, secondees and employees with cross-border employment arrangements. Employment contracts and assignment letters should be reviewed to confirm whether tax is borne by the employee or the employer.

Retrospective employment income and prior-period payments

- Lump sum employment payments relating to earlier periods should be separately reviewed. These may include back-pay, reinstatement payments, delayed bonuses, settlement amounts, arbitration awards or other prior-period remuneration.
- Special timing or apportionment rules may apply. Employers should retain documents showing the period to which the payment relates and should consider whether BURS guidance or a withholding direction is required before payment.

Cash basis for deduction of employment expenses

- Employers should review the timing of deductions for employment-related costs. Under the new Act, employment expenses are deductible on a cash basis unless a specific provision allows otherwise. Accrued but unpaid bonuses, leave pay, gratuities, severance pay, retrenchment packages and similar amounts should therefore generally not be deducted until paid.
- Employers should also review employment cost provisions claimed as deductions in the final tax year under the previous Income Tax Act. The new Act does not provide a specific transitional rule allowing unpaid employment cost accruals deducted under the previous Income Tax Act to be deducted again when paid under the new Act.
- In practice, employers should track opening employment accruals carefully, add back unpaid provisions or accruals where required in the first tax computation under the new Act, and claim deductions only for actual cash payments made during that year.

Practical actions for employers

- Employers should review payroll processes, employment contracts and benefit policies before the first full payroll cycle under the new rules is completed.
- This should include reviewing expatriate contracts, secondment agreements, tax equalisation arrangements, net-of-tax clauses, benefit registers, employee loan arrangements, housing arrangements, motor vehicle policies, education benefits, termination payments, retirement-related payments and employee share schemes.
- Employers should also build BURS withholding direction timelines into exit and retirement processes, review employment cost accruals deducted under the previous Income Tax Act, and retain support for benefit valuations, PAYE treatment and employee classifications.

Practical actions for employees

- Employees should review their own tax position where remuneration is not limited to standard monthly salary.
- Employees receiving housing, motor vehicle benefits, school fee support, utilities, employee loans, share awards, gratuities, severance pay, retrenchment payments, compensation for loss of employment or retirement-related lump sums should confirm the tax treatment before payment where possible.
- Employees with cross-border employment arrangements, tax equalisation arrangements or offshore share plan participation should also consider whether they have separate filing or disclosure obligations.

How PwC can assist

PwC can assist employers and employees with payroll reviews, employee benefit reviews, benefit valuation support, employment contract reviews, expatriate and mobile employee tax reviews, employee share scheme analysis, tax-free pay and gross-up calculations, gratuity and severance payment reviews, BURS withholding direction applications, employment cost accrual reviews and employee communication.