

Tax First Namibia Newsletter

August 2015



A monthly newsletter published by PwC Namibia providing informed commentary on current developments in the local tax arena.

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What is the nature of your company's return on investments?

Don't be caught off guard by tax on the growth of Unit Trust values

In Namibia there is a variety of unit trust funds to choose from. Very often, corporate taxpayers are unsure of the nature of the return received. Do the returns made on the investment constitute interest, dividends, capital gains or something else?

It is very important from a tax perspective to know what the nature of your company's return will be. Depending on how the specific unit trust fund is set up, there may be different tax implications for the investor company.

Companies often invest in a so called "*non-distributing fund*" or a "*roll-up fund*". In these funds the unit trust is liable for the cost of the withholding tax (due to a provision in the Income Tax Act that deems the undistributed returns to be distributed and taxed). You will often find that an investor will purchase units in this fund, and the market value of the units will grow. The investor will not receive any taxable income from the fund other than the growth in the market value of the units. This investment return is of course, net of tax, as the fund already settled tax on the interest portion of the income.

This increase in value would usually not be taxable as it does not relate to an amount received in cash or otherwise and would not accrue to the taxpayer. Where the taxpayer however starts trading these units and regularly buy and sell units, the gains may become taxable (as it will no longer be capital in nature). It is therefore important that corporate taxpayers carefully manage the number of purchase and sale transactions in their unit trust portfolios. The intention of a company (which is also considered when determining if gains are taxable) is demonstrated in its resolutions—it is therefore important that investment committees or other decision makers clearly document their aim to hold investments for long-term capital gain in minutes, where this is the case.

To ensure that you treat the returns on your investment correctly for tax purposes, make sure that you consult your unit trust manager or tax advisor regarding the tax implications.

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TIM's TIP:

Remember the first provisional tax return for 2016 is due at the end of August 2015.

Do your tax return NOW on taxtim.pwc.com.na!



VAT: The difference between a financial and operating lease

Have you ever considered the VAT implication on leasing goods? Do you know how VAT should be accounted for on an operating lease, and a finance lease?

The VAT Act stipulates aspects of an agreement one should look at to determine whether your lease is a financial lease or an operating lease.

Below are the requirements a lease should meet for it to be regarded a **financial lease**:

| Requirements | Financial lease |
|--|-----------------|
| The agreement is in writing and provides for the letting and hiring of any movable goods; | ✓ |
| The lessor under such agreement is one of the following: | |
| 1. A financier; or | ✓ |
| 2. A banker; or | ✓ |
| 3. A dealer in goods, machinery or plant | ✓ |
| The lessor is the owner of the leased property; | ✓ |
| The lessee is entitled to the possession, use or enjoyment of the leased property for a period of at least 12 months. | ✓ |
| The lessee accepts the full risk of destruction or loss of, the leased property | ✓ |
| The lessee assumes all obligations in connection with the insurance, maintenance and repair of the leased property while the agreement remains in force. | ✓ |

For an **operating lease**, *Rental Consideration* in relation to movable goods, means any rental or other consideration payable by any person in respect of the use of or the right to use such goods or the grant of permission to use such goods.

| | Finance Lease | Operating Lease |
|------------------------------|---|--|
| Time of Supply | The time the goods are delivered or the time any payment in respect of that supply is received, whichever is the earlier. | The time the payment becomes due or is received, whichever is earlier |
| Value of Supply | The cash value of the supply | The amount due or payable at the end of each period, i.e. at the end of each calendar month. |
| Output VAT | Lessor charge lessee consideration at 15% | Lessor charge Lessee on a monthly rental charge |
| Input VAT | 1. Lessor claim once-off on cash value on acquisition of asset; 2. Lessee claim once-off on initial invoice charge | 1. Lessor claim once-off on cash value on acquisition of asset; 2. Lessee may claim monthly input on rental charge. |
| Monthly Charges | Lessor charge lessee interest monthly. Interest is an exempt supply. | Lessor charge monthly rental (no interest on this charge) |
| Transfer of Ownership | At the end of the agreement, ownership will pass to the lessee. | Never |

The time and value of how and when, output and input VAT should be declared should be carefully considered before entering into either one of these contracts.

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Register now for the August PwC Business School events

Below are the PwC Business School training session and workshops scheduled for August:

| | |
|-----------------------|---|
| 20 - 21 August | Workshop: Leadership Launchpad - Coaching for Performance |
| 20 August | Workshop: Speed reading |
| 28 August | Workshop: Leadership Launchpad - Networking |

The 2015 Proposed tax amendments

With the 2015/16 National Budget, the Minister of Finance announced a number of proposed tax amendments. We expect that bills for these changes will be tabled before the end on 2015.

Expected changes include:

- Reduction of withholding tax on services rate from 25% to 10%
- Implementation of the 32% non-mining corporate income tax rate
- Introduction of the first phase on environmental taxes.
- The VAT threshold will be raised from N\$200 000 to N\$500 000.
- Criteria for voluntary VAT registration and VAT import accounts.
- Mandatory security requirement for deferral of VAT goods.
- Online filing of tax returns and online payment of taxes (2016).
- New rules on taxation of restraint of trade payments.
- Taxation of proceeds from the sale of petroleum licenses.
- Transfer duty on the sale of shares in companies owning property, land and mineral licenses
- Tabling of the Customs and Excise Bill
- Strengthening the recovery of tax debts.
- Introduction of Export Levy.
- Introduction of Sin taxes.
- Establishment of a Revenue Agency

Keep an eye on this Newsletter. If any legislative amendments are published we will circulate a special edition.

Tax Calendar - August 2015

| Mon | Tue | Wed | Thu | Fri |
|---|---|-----|---|-----|
| 17 | | 19 | 20 <ul style="list-style-type: none"> • PAYE Returns; • Import VAT return; • Withholding Tax on Services return; • VET Levy | 21 |
| 24 | 25 <ul style="list-style-type: none"> • VAT return | 26 | 27 | 28 |
| 31 <ul style="list-style-type: none"> • Social Security payment; • 1st provisional for companies with a February 2016 year-end & business individual provisional taxpayers • 2nd provisional for companies with July 2015 year-end; | | | | |

For assistance or advice please contact one of our tax specialists.

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