

# Tax First

## Namibia Newsletter

July 2018



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

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### Venue hire

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## DIFFERENTIATING BETWEEN REPAIRS AND IMPROVEMENTS FOR INCOME TAX PURPOSES

*One of the most common mistakes a taxpayer can make, is to claim improvements as a deduction for income tax purposes. The following article provides guidance on when a taxpayer may claim an amount as a repair and when amounts would perhaps not be deductible for income tax purposes (i.e. constituting improvements).*

A specific deduction is allowed under Section 17(1)(d) of the Namibian Income Tax Act for expenses actually incurred during a year of assessment for repairs. It is important that the property or asset which is being repaired, should be used in the carrying on of the taxpayer's trade. Therefore repairs and maintenance on your private residence is not deductible as a company expense, which is specifically prohibited under Section 24 of the Namibian Income Tax Act.

A taxpayer should be able to distinguish between what constitutes a 'repair' and what falls within the criteria of an 'improvement'. Our Income Tax Act does not include the definition of a 'repair'. Therefore, we refer to case law in understanding the term. Under the case of CIR v African Products Manufacturing Co Ltd 1944 TPD, the court established some guidelines in defining a 'repair' as follows:

- A repair is a restoration by renewal or replacement of a subsidiary part of the whole; and
- The materials used need not be exactly the same as the original material.

First of all, before a property or an asset can be repaired, it should have been damaged or deteriorated. The intention of the taxpayer should be to restore the asset to its original 'working' condition. If this criteria is not met, there is a risk that the amounts may be treated as a capital improvement, on which no capital allowance might be claimable.

The term 'improvement' is not specifically defined in the Income Tax Act of Namibia and therefore we refer to the Oxford dictionary definition thereof, which reads as follows: "A thing that makes something better or is better than something else". Thus, if a taxpayer repairs an asset not by replacing it with the original parts/components, but rather 'upgrading' the asset through the reparation process with more expensive or better materials, such amounts may be seen as an improvement (which will be disallowed as a deduction for income tax purposes).

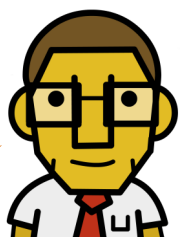
The key phrase to focus on when determining whether an amount may be seen as a 'repair', is whether it constitutes the **"renewal or replacement of a part bringing the asset back to its original working condition"**. If this is the case, the amount may be claimed as a deduction. Otherwise, when in doubt consult!

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### TIM's TIP:

Imagine if completing your tax return could be as easy as having a conversation. Use TaxTim to complete your annual and provisional returns - quick & easy!

For queries please mail us at [namibia@taxtim.com](mailto:namibia@taxtim.com) or register for TaxTim today at [pwc.taxtim.com/na](http://pwc.taxtim.com/na)



## CUSTOMS PROCEDURES FOR TEMPORARY IMPORTATION OF GOODS INTO NAMIBIA (PART 2 of 2)

### Valuation of goods for temporary importation

Sometimes this can be a contentious issue as the correct customs value must be declared. In the case of a personal vehicle imported by someone coming to work in Namibia on a contract basis, Customs Namibia wants to see 3 valuations from dealerships in the country where the vehicle is registered. The determined value will form the basis of customs duties (if applicable) and import VAT for which security must be provided.

Customs Namibia mostly only accept cash payments (called “provisional payments”) on the temporary importation of private vehicles, which can cause a substantial cash outlay by the person coming to work in Namibia on a temporary basis.

In other cases, a bank or approved insurance company guarantee is acceptable to Customs Namibia.

Goods and equipment moved to Namibia on a temporary basis are mostly subject to lease contracts. In such cases, the total lease amount payable over the contract term must be declared as the customs value of the goods. The actual value of the goods is therefore not used by Customs Namibia in the case of goods which are subject to a lease contract and imported on a temporary basis into Namibia.

### Time limits for temporary imports

AsycudaWorld allows a maximum of 365 days (1 year) when a declaration is made for temporary importation. Shorter periods can be chosen by the clearing agent if the goods will remain in Namibia for a shorter period.

Should the goods remain longer than one year in Namibia, application must be made at Customs Namibia for extension of the temporary customs entry with maximum one year. In deserving cases, Customs Namibia will extend the period for another year, after which the goods must be re-exported from Namibia.

### Conclusion

Customs clearing and Customs procedures could sometimes be very complicated and if handled incorrectly, very costly to importers.

It is advisable to obtain as much information as possible about Namibia’s Customs procedures and clearing especially since the procedures are not officially published and sometimes interpreted differently from customs office to customs office.

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**Win a copy of our Income Tax Handbook by answering the below question. Mail your answer to [lasarus.amukeshe@pwc.com](mailto:lasarus.amukeshe@pwc.com).**

**“Is a repair claimable when it is above the actual cost of the asset? Motivate your answer.”**

## PwC Business School Training Calendar



### Upcoming training dates:

#### Windhoek

9-11 Jul	Finance Training for Non-Financial Managers
18-20 Jul	Basic Accounting Training
1-2 Aug	Time and Priority Management Workshop
6-7 Aug	Excel Skills for Remuneration Practitioners
8 Aug	Sales Compensation Training
13-20 Aug	Microsoft Office Training (Word, Excel & Powerpoint)
3-5 Sept	USAID Training

#### Walvis Bay

12 Jul	King IV Seminar—with Professor Mervyn King
17-19 Jul	Finance Training for Non-Financial Managers
18-20 Sept	Annual Tax Symposium
22-23 Oct	Excel Skills for Remuneration Practitioners

For more information, contact one of our Business School Managers.

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<http://www.pwc.com/na/en/events.html>



*“Education is the most powerful weapon you can use to change the world”*

**- Nelson Mandela**

# New Legislation Tracker

This diagram tracks the progress of proposed tax legislation. The following is the status of proposed legislative changes up to 30 June 2018. No effective date has been set for any of the proposed legislation.

Repeal the **EPZ Act** and introduction of **Special Economic Zones** (with sunset clause).

**Individual tax rate** lower bracket to decrease from 18% to 17% and introduction of higher brackets:  
> N\$1.5 mil 39%  
> N\$2.5 mil 40%

Abolish current practice of the **conduit pipe** (flow-through) principle in the taxation of trusts.

Establishment of **Revenue Authority** - planned implementation for July 2018.

Explore a profit tax of 37% on **betting and gaming** entities.

VAT on income earned by listed **asset managers**.

Subject income derived from **commercial activities** by charitable, religious, educational and other types of institutions under Section 16 of the Income Tax Act to normal corporate tax.

Expand coverage of current **Export Levy Act** to include other products not covered.

Introduction of 10% **dividend tax** on dividends paid to local residents.

Deepen the current hybrid tax system by taxing all income earned from **foreign sources**.

VAT on proceeds on sale of shares or membership in a company owning **commercial immovable property**.

## Tax Calendar - July 2018

Mon	Tue	Wed	Thu	Fri
16	17	18	19	20 <ul style="list-style-type: none"> <li>• Import VAT return;</li> <li>• VET Levy return;</li> <li>• PAYE return;</li> <li>• Withholding Tax returns: Services, Royalties, Interest; NRST.</li> </ul>
23	24	25 <ul style="list-style-type: none"> <li>• VAT return</li> </ul>	26	27
30 <ul style="list-style-type: none"> <li>• Social Security payment;</li> <li>• 1st provisional for taxpayers with January 2019 year-end;</li> <li>• 2nd provisional for taxpayers with July 2018 year-end;</li> <li>• Tax return for companies with 31 December 2017 year-end.</li> </ul>	31			

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

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