



# Tax First

## Namibia Newsletter

### October 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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Or visit our website at: <https://www.pwc.com/na/en/about-us/business-school.html>



## DISALLOWANCE OF EXPENDITURE FOR INCOME TAX PURPOSES WHEN NO TRADING TAKES PLACE

*The current practice followed by Inland Revenue relating to income tax assessments is to disallow the expenditure incurred during the current year in the event that no taxable income was generated. As a result, once the expenditure for the current year is disallowed, any balance of assessed loss (loss brought forward) is also forfeited.*

The rationale is based on the premise that a deduction of expenditure shall only be allowed if such expenditure derived income from trade. A taxpayer that derives no income from trade will have to discharge the onus that he/she did in fact trade during the year of assessment, although the trade did not generate income. A critical factor is that expenditure incurred in trade should be sufficiently closely linked to its potential to produce income.

Taxpayers that are going to be affected by this action of Inland Revenue are neither informed nor consulted and only become aware of the disallowance of expenditure through a notice of assessment issued by Inland Revenue which is often delayed.

Under the Income Tax Act there are two requirements which must be met in order for a taxpayer to set off an assessed loss against taxable income, namely:

- the taxpayer must be carrying on a trade; and
- the assessed loss may only be set-off against income derived from that trade.

In terms of the Act, “**trade**” includes every profession, trade, business, employment, calling, occupation or venture, including the letting of any property, and the use of or the grant of permission to use any patent or design’.

A person that fails to carry on a trade during a year of assessment will not be allowed to carry forward any assessed loss from the preceding year of assessment.

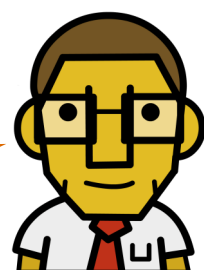
Careful consideration should therefore be given to where a taxpayer is temporarily ceasing trading activities to determine the potential impact on the deductibility of expenses, and also on the potential to carry forward any tax losses.

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#### TIM's TIP:

TaxTim offers a **mobile logbook free of charge** with all employees signed up for Employee Assist and also for Users registered as provisional taxpayers!

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



## VAT REFUND CLAIMS FROM INLAND REVENUE THAT EXCEEDS N\$5 million

*A VAT refund arises when the Input VAT (expenses) exceeds the Output VAT (sales).*

As per the public announcement made on 25 July 2018, Inland Revenue ruled that all VAT refunds should be audited before any refund is released.

If the refund is more than N\$ 5 million, the following provisions may apply:

1. Once an audit is finalised, the VAT auditor writes a report to the supervisor.
2. The supervisor will review the report and, once satisfied with the content thereof, send the report to the controller for further review.
3. Once reviewed by the controller, the report is sent to the Commissioner for approval.
4. The Commissioner has to approve the refund before it is sent to the Permanent Secretary (Ministry of Finance).
5. Once the Permanent Secretary is satisfied and approves the report, it is sent back to the Commissioner.
6. The Commissioner thereafter sends the report to the Treasury Department for payment to take place.
7. This approval procedure normally requires 6-7 signatures for the refund to be paid out.

The Treasury Department operates on the basis of an available pool of funds, which determines the amount of refunds available for payments at a time. Payments are made by the Treasury Department on Mondays, Wednesdays and Fridays or upon instruction from the Permanent Secretary. Payments are made on a first come, first serve basis and cannot be requested to be released earlier.

Lastly, the Treasury Department keeps a manual record of refunds due to be paid. After a payment has been effected, the taxpayer may request proof of payment from the Treasury Department for their own record-keeping purposes.

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## PwC Business School Training Calendar



### Upcoming training dates:

#### Windhoek

5 Oct	Managing Company Secretarial Risk
10-12 Oct	Basic Accounting Training
15-17 Oct	ITIL Foundation Training
18-19 Oct	COBIT 5 Foundation Training
30-31 Oct	Compliance Risk Management Training
2 Nov	Time Management Workshop
5-7 Nov	Microsoft Excel & Powerpoint Training
12-16 Nov	Tax Awareness Week

#### Walvis Bay

10-11 Oct	Excel Skills for Remuneration Practitioners
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For more information, contact one of our Business School Managers.

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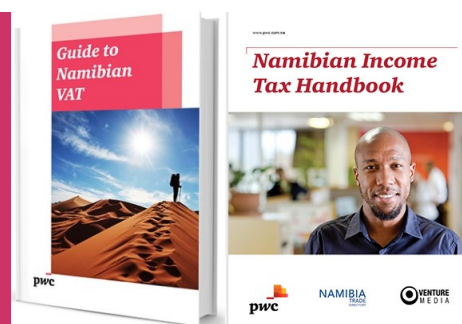
*"Education is the most powerful weapon you can use to change the world"*

**- Nelson Mandela**

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## New Legislation Tracker

This diagram tracks the progress of proposed tax legislation. The following is the status of proposed legislative changes up to 30 September 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 late 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 - October 2018

Mon	Tue	Wed	Thu	Fri
15	16	17	18	19
				• VET Levy return
22	23	24	25	26
• Import VAT return; • PAYE return; • Withholding Tax returns: Services, Royalties, Interest; NRST.			• VAT return	
29	30	31		
	• Social Security payment	• 1st provisional for taxpayers with an April 2019 year-end; • 2nd provisional for taxpayers with an October 2018 year-end; • Tax return for companies with a March 2018 year-end.		

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

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# ***Tax accounting, reporting and strategy services***

***Providing you with confidence  
over your financial reporting of  
income taxes***

## ***Our tax reporting and strategy offering***

*Increased scrutiny of how much tax organisations are paying, and their policies in this area, means that it is increasingly important that your tax reporting is accurate and appropriately disclosed within your financial statements*

**We can help ensure that you have fit for purpose tax accounting processes in place, and can add value to your business in the following key areas:**

- Deferred tax remediation, assisting with assessment of the completeness and accuracy of your deferred tax balances
- Preparation or review of annual or quarterly tax provisions
- Preparation or review of the income tax calculations

**We can also support your wider, practical tax accounting needs including:**

- People – providing support during periods of resource constraints with the preparation or review of tax accounting numbers
- Training – providing tax accounting training to keep your management, finance and tax teams aware of the current rules as well as future developments and the potential impact on your tax reporting

## Key questions to ask yourself

# 1

Do you have new tax reporting requirements? Are you aware of the impact on cash tax payments? Will there be deferred tax implications for your financial statements?

# 2

Are you currently involved in any M&A transactions that would require a separate set of financial statements?

# 3

Is your finance function transforming? Is your year end reporting deadline getting shorter? Have you considered your tax reporting target operating model?

# 4

Do you have a history of significant prior year adjustments to your tax reporting numbers resulting in a volatile effective tax rate?

# 5

How much comfort do you have over your deferred tax balance sheet calculations? What tax reporting risks are not within your auditors' scope?

## We can add value to your business

With key stakeholders already engaged with how taxes are managed within your organisation, now is an ideal time to ensure you are appropriately reporting your taxes. Focusing on the wider tax strategy provides you with an opportunity to ensure there is clarity around the various components of your tax accounting processes, and that you are operating effectively and efficiently within the business. Examples of specific situations are:

- You need confidence that your financial reporting of taxes is as accurate as possible and aspire to develop processes and procedures to capture relevant data and information at an early stage
- You need to reduce your tax reporting close period by redesigning your processes, without losing accuracy of your numbers
- Your business wants to gain a greater understanding of the financial reporting impact on taxes in order to make more informed decisions
- You require greater effectiveness and efficiency when making effective tax rate forecasts based on forecast transactions and scenarios
- There is a need to relieve time pressures on your local finance teams
- A lack of awareness over appropriate tax accounting treatment means your organisation is more vulnerable to errors and potential penalties and interest

## Other areas to consider

Well managed and accurate tax reporting is just one area that your tax strategy should deal with. Ensuring that your current strategy is up to date and fit for purpose given the current focus on effective tax management and disclosure should also be a priority. We can assist you with this as well as other ways to enhance your management of tax, including:

- Reviewing your current tax strategy and ensuring it is aligned with the overall business strategy and supported by a strong governance framework
- Improving aspects of your tax operating model through tax technology, as an enabler to achieve advances in workflow management, data management and analytics
- Assessing your tax compliance delivery model by using the latest developments in tax technology to enhance efficiencies
- Considering how you can better manage specific areas of tax such as transfer pricing, capital expenditure, employment taxes, VAT and customs expenditure

For further information on this and other areas where we can assist you please visit <https://www.pwc.com/us/en/services/tax/reporting-strategy.html>

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