



**Deloitte commentary on
Namibian Budget 2021/2022**

Making an impact that matters



Budget 2021/22

"In spite of these challenges, Honourable Speaker, it is possible to reignite resilience and for Namibia to prosper again."

***Minister of Finance
Mr Ipumbu Shiimi, 17 March 2021***

Budget Snapshot



Finance Minister Ipumbu Shiimi delivered his second Budget Speech in Parliament on 17 March 2021, exactly a year after Namibia declared a State of Emergency due to the COVID19 pandemic.

The theme of the 2021/2021 budget is “Boosting Resilience and Recovery”.

Optimism was expressed by the Minister due to a moderate economic recovery and the launch of the Continental Free Trade Area (“CFTA”) in January 2021. For a small country CFTA will provide an expanded market for our exports and will make it possible for Namibia to become a hub for foreign direct and domestic investments.

Minister Shiimi felt an excitement with the launch of the CFTA - that reminded him of Wakanda – an opportunity he feels could transform the Namibian economy, strengthen public finances, create jobs, reduce inequalities and eliminate extreme poverty. He quoted President Nelson Mandela “it always seems impossible until it is done”

Despite the optimism felt with the launch of CFTA, the reality of COVID19 and the impact it is having were highlighted by the Minister. The one-year budget announced in 2020 had the health and livelihoods of Namibians as primary consideration. A multi-pronged approach was taken that included the boosting of capacity in the health sector and an N\$ 8.1 billion fiscal stimulus package that was further scaled up to N\$ 9.1 billion. We will discuss this in more detail later in our newsletter.

Global and Regional Economic Outlook

The global economy contracted by 3.5% in 2020 severely impacting industry, jobs and social conditions. With the on-going roll-out of the COVID19 vaccine global economies are expected to recover.

The International Monetary Fund (IMF) projects global growth to rebound to 5.5 percent in 2021, stabilizing at around 4.2 percent over the next two years.

Global trade is forecast to grow by 8.1 percent in 2021, from the slump of 9.6 percent a year ago and hover around 6.3 percent over the medium term.

The Sub Saharan African region is projected to grow by 3.2 percent in 2021, after a contraction of 2.6 percent last year and growth for South Africa is projected at 3.3 percent this year, following a contraction of 7.2 percent in 2020.

The Angolan economy is projected to post a growth rate of 3.2 percent, after a decline of about 4 percent last year.

Domestic Economic Outlook

The domestic economy suffered a deep contraction of 7.3 percent last year. Revenue is expected to remain weak in the 2021/22 owing to the economic activity that is also expected to remain weak. On the expenditure side for 2019/2020 the Minister highlighted the following:

- preliminary expenditure outturn stood at N\$66.8 billion;
- the non-interest operational budget execution rate estimated at about 99.5 percent;
- development budget execution rate stood at 83.2 percent;
- the budget deficit is estimated at 4.7 percent of GDP, compared to 4.1 percent as budgeted, mainly due to revisions in nominal GDP;
- public debt as a percentage of GDP stood at 54.8 percent; and
- debt servicing as a percent of revenue stood at 13.5 percent and contingent liabilities of Government were approximately 6.3 percent of GDP relative to the 10 percent maximum cap.

Revenue is estimated to decline by about 6.1 percent or N\$3.4 billion in 2021/22 relative to the previous financial year. The expected decline is mainly induced by a reduction in SACU receipts and company taxes.

However, as with other global economies, the Namibian economy is expected to record a recovery from the pandemic-induced lockdown measures and trade disruptions.

The economy is projected to post an average growth of 3.1 percent over the medium-term period.

Alongside fiscal stimulus measures, the repo rate has been cut to an all-time low at 3.75 percent.

Inflation for 2020 averaged 2.2 percent, the lowest over the past two decades, reflecting the multi-faceted impact of the demand shock on prices for basic inputs and services.

Fiscal snapshot 2021

The total estimated revenue collected for the 2021 year as at February 2021 amounted to N\$52.9 billion against a budget of N\$55.5

billion. This represents a 97% collection.

On the expenditure side, total estimated expenditure for the year amounted to N\$72.1 billion. This comprises of 91.3 percent operational expenditure execution rate and 82.2 percent development budget spending rate.

The budget deficit is estimated at about 9.7 percent of GDP. Total debt is estimated at 68.8 percent and debt servicing is estimated at N\$7.7 billion or 14 percent of revenue, reflecting the elevated cost of borrowing. Contingency liabilities are estimated at 7.3 percent of GDP in relation to the 10 percent threshold.

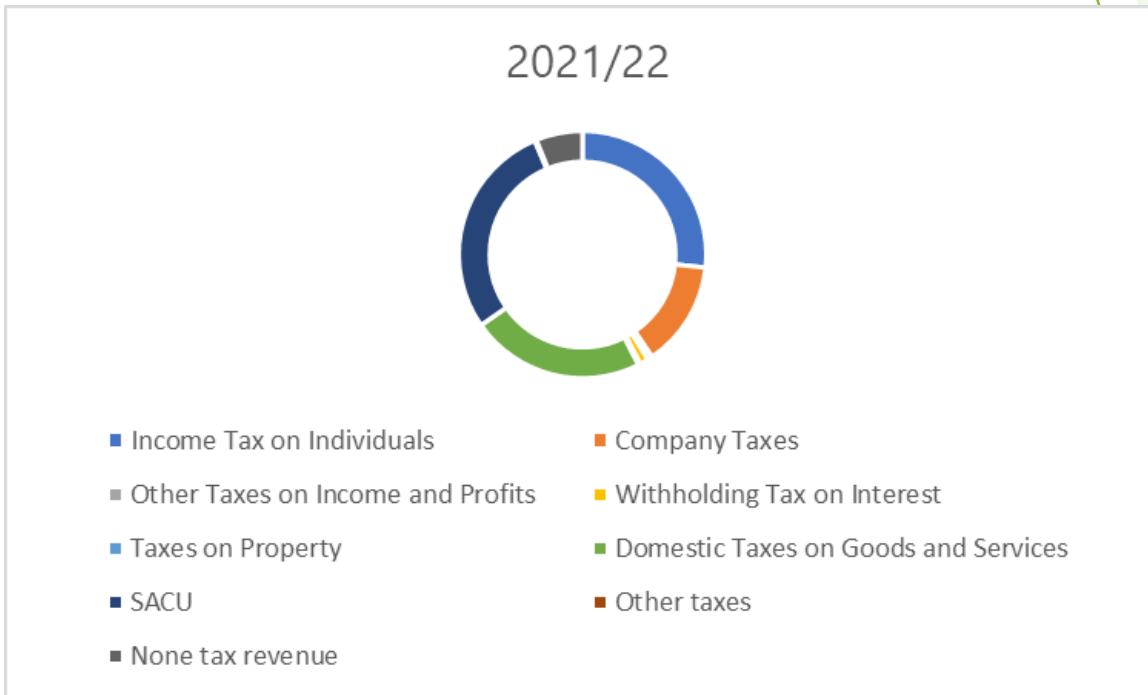
Budget 2021/2022

Budgeted expenditure for the 2022 year will be N\$67.9 billion against budgeted revenue of N\$55.5 billion.

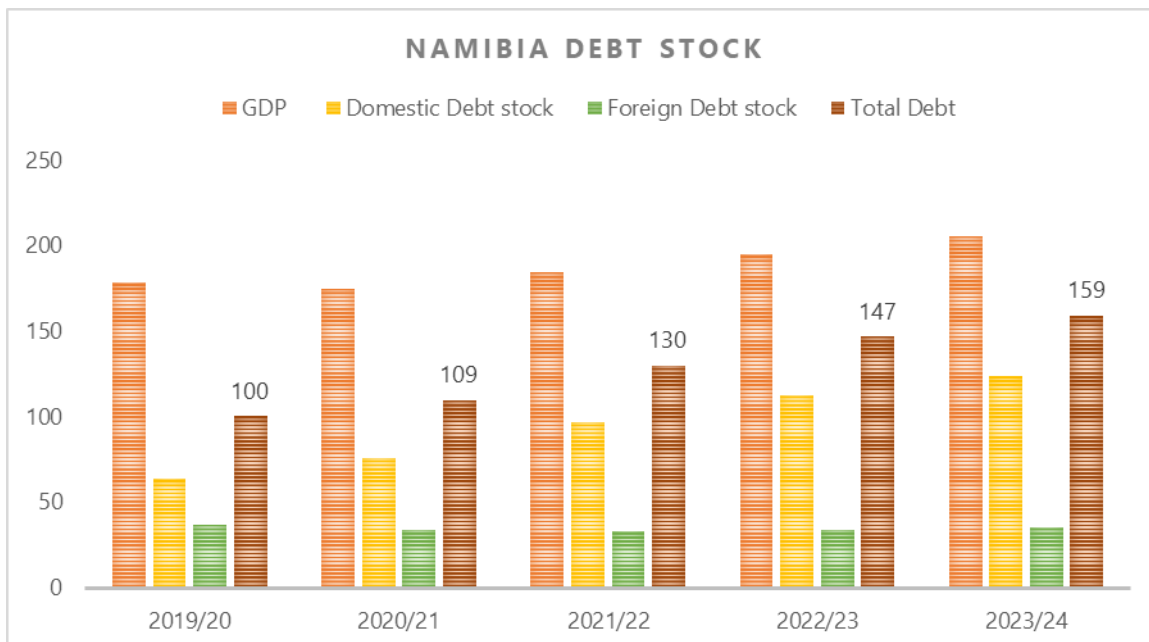
While the 2020/2021 budget was a one-year targeted budget to mitigate the impact of COVID19, the budget for the next three years 2021 – 2023 is aimed at revival of the economy and a return to pre-2016 growth trajectory. As the Minister looks at the next level of the new normal he highlighted three main areas that he believes is essential for the path of recovery:

- acquisition and distribution of COVID19 vaccine;
- support for economic recovery objectives; and
- continued provision of essential public services and shielding our communities against drought spells.

Revenue split 2020/21



Debt stock



COVID Stimulus



In 2020, the Minister of Finance announced an N\$8.1 billion COVID stimulus package which was further scaled up to N\$9.1 billion. The package comprised of N\$6.7 billion total budgetary allocation and N\$2.4 billion Government guarantee-backed loans.

The package consisted of:

- procurement of medical equipment and supplies, ICU beds, PPEs, isolation facilities and related supplies at a cost of N\$727.7 million;
- 769,000 Namibians benefitting from the Emergency Income Grant at a cost of N\$576 million;
- 230 employers and 21,359 employees benefitting from the wage subsidy and employee salary protection programs under the auspices of the Social Security Commission at a cost of N\$27.9 million and N\$78.8 million respectively;
- the renovation of 97 ablution facilities and the construction of 121 new units, renovation of 36 school hostels and construction of 35 additional hostel units or expansion thereof as well as the connection of 113 schools to piped or borehole water under the stewardship of the Ministry of Education, Arts and Culture at a cost of N\$ 468 million
- water supply in urban and rural areas at an estimated cost of N\$72 million;
- N\$22 million utilized by the security sector to procure COVID19 related medical supplies, refurbishment of related infrastructure and enforcement of regulations; and
- new and restructured loans of N\$174 million for 194 farmers by Agribank.

The Development Bank of Namibia will continue to roll-out N\$450 million guaranteed loans to micro, small and medium-sized enterprises as well as to large businesses.

The Development Bank of Namibia will also continue with other targeted facilities such as the youth skills-based lending facility and the Credit Guarantee Scheme.

COVID stimulus around the world

Stimulus packages around the world included asset write-off threshold, accelerated depreciation deductions, loss carry-backs, income tax cuts for lower- and middle-income earners, tax incentives for R&D, payroll tax relief for businesses, grants to hard hit small businesses and self-employed, increased access to childcare and basic social security benefits, temporary relief to affected tenants, incentivizing of green and digital investment, a temporary VAT reduction, corporate tax reliefs, personal income reliefs, and social security contribution reduction, deferral of payment of taxes and social security contributions, exemptions for goods and services related to epidemic control and for small taxpayers, VAT rate cut, corporate income tax relief for businesses, delayed tax and VAT payments, etc.

A summary of additional spending, forgone revenue and deferred revenue of some ten countries are set out below:

| Country | Additional spending | Forgone revenue | Deferred revenue | Other measures |
|----------------|---------------------|-----------------|------------------|----------------|
| Australia | AUD 226 bn | AUD 74 bn | | Yes |
| Germany | Euro 286 bn | Euro 42 bn | | Yes |
| Japan | JPY 74 tn | | JPY 26 tn | Yes |
| United Kingdom | £211.3 bn | £19.7 bn | £3 bn | Yes |
| Nigeria | N500 bn | | | Yes |
| China | RMB 3.1 tn | RMB 1.8 tn | | Yes |
| South Africa | R 220 bn | R 26 bn | | Yes |
| Ghana | US\$260 mn | | | Yes |
| Kenya | 56 bn | 186 bn | | Yes |
| Zambia | 6.1 bn | | | Yes |

Fiscal Policy 2021-2024



In this budget the fiscal policy stance is aimed to strengthen fiscal sustainability, while contributing to the inclusive economic growth objectives.

A strong focus will be put on promotion of private sector-led growth. For that the Minister will look at the implementation of enabling structural policy reforms, including tax reforms, tax administration through the operationalisation of the Namibia Revenue Agency ("NAMRA"), reduction of public sector wage bill, restructuring and consolidation of Public Enterprise, review of PSEMAS governance and benefit structure, among others.

The following will be key priorities for Government:

- implementation of fiscal consolidation programme - crowd-in the private sector investment and finance the high budget deficit in a manner which does not raise additional public debt through among others, the following:
- reform of the wage bill - to be finalised by the end of MTEF,
- review of PSEMAS, to improve its governance model, benefit structure and administrative efficiency – to be finalised by December 2021;
- restructure of Public Enterprises and implementation of the Public Asset Ownership Policy - to be finalised by December 2021,
- optimise the use of the proceeds from the sale of MTC shares to reduce debt;
- put on hold recruitment of mass personnel in the government;
- consider closing down the Southern Times and consolidate NAMPA and NewEra into one entity;
- withhold payments to the Government garage until assessment of the Ministry of Works and Transport is finalized - to be done before October 2021;
- implement recommendations arising from public expenditure reviews in the health and education sectors and extend such targeted reviews to other sectors;
- mobilise alternative forms of financing, including PPPs in areas of infrastructure development and service delivery; and
- accelerate reforms in the public procurement function.



Tax Changes



The Ministry, after consultation with various stakeholders, took a principle decision not to increase the general tax rates. The Minister said that the decision was taken especially at this point in time when economic recovery is the primary objective. The Minister did however continue to list a number of tax proposals which we will deal with below.

The Minister once again noted that tax policy and tax administration reforms will aim to strengthen the fairness and equity principles of the tax system and achieving greater compliance.

NAMRA

The long-awaited agency will commence business on 7 April 2021. We do expect that NAMRA, over time, will increase tax collection and efficiencies.

Non-mining corporate tax rate

The Minister announced a reduction in the non-mining company tax rate. However, he did not confirm what the reduced rate would be and only mentioned that the rate and timelines regarding the change will be announced during the Mid-Year Budget Review in October 2021. This is a very welcomed announcement by the Minister as Namibia needs to remain competitive to encourage local and foreign investment.

VAT changes

The Minister announced that the sale of sanitary pads will become zero-rated for VAT purposes. He urged suppliers and retailers to pass the relief on to consumers. The Minister did not mention from when the new rate will apply and also did not speak about any transitional measures. The VAT Act will have to be amended and an effective date will be made known at that stage.

VAT will also be introduced on the income of listed fund managers. This proposal was first mentioned in 2018 but has not been promulgated as yet. Based on the Minister's comments in the 2021/22 budget speech, the amendment will be followed through.

The aim of the amendment is to bring listed and the so to speak unlisted fund managers on the same level, as the income of the latter is subject to VAT at 15%.

The amendment will unfortunately, in our view, increase costs on investments that are

made through listed fund managers.

Contributions to pension, provident, retirement annuity funds and educational policies

The Minister once again confirmed that the contribution to pension funds, provident funds, retirement annuity funds and educational policies will increase. The current annual deduction of the aggregate contributions is N\$ 40 000. The deduction will now increase to N\$ 150 000 per annum. The increase needs to be made through an amendment and will only be effective once gazetted. The Minister did not confirm any timelines regarding the increase. We hope that the amendment will be made very soon so that it can be applicable for the 2022 tax year.

Local withholding tax on dividends

The Minister confirmed that the local withholding tax on dividends of 10% will be introduced. This amendment was announced in 2018, but extensive discussions were held with the Ministry on the proposal and the proposed wording. The Minister in his speech specifically noted that the dividend tax will be introduced in such a way that dividends will only be taxed once. This was one of the concerns raised with the 2018 proposed wording. A number of other concerns were also raised relating to the proposed definition of dividends to name but one. The Minister did not make mention of the other concerns that were raised and also did not mention any timelines when this amendment will be made effective.

Withholding tax on services

The Minister referred to the strengthening of the administration around withholding tax on services and noted that taxpayers need to prove that the tax was withheld from the payment to foreign supplier. No further details were provided and no timing was mentioned either.

In the past, a proposal was made that taxpayer would only be allowed to deduct expenses in respect of which withholding tax on services was applied if they could prove that the withholding tax was paid. It is not clear from the Minister's speech if the proof of withholding tax payments is linked to the deduction of the expense as was mentioned previously.

Withholding tax on interest from unit trust

The Minister noted that there will be a review of the withholding tax on interest from unit trusts as it relates to Namibian companies. No further details were provided.

Freight tax

The Income Tax Act has a specific provision relating to the collection of taxes from ships and aircraft that embarks goods and passengers from Namibia. The provision has however not been applied effectively and the Minister announced that the administration regarding this tax will be reviewed and strengthened.

Sin taxes

From 24 February 2021, the following increases in excise duties are applicable:

- 340ml can of beer or cider – increase of 14c
- 750ml bottle of wine – increase of 26c
- 750ml bottle of sparkling wine – increase of 86c
- bottle of 750 ml spirits, including whisky, gin or vodka – increase of N\$5.50c;
- a packet of 20 cigarettes costs – increase of N\$1.39c;
- 25 grams of piped tobacco – increase of 47c more; and
- 23 gram cigar – increase of N\$7.71c

Personal income tax brackets

Personal income tax brackets have last been amended in 2013. These brackets are now clearly out of line with inflation.

Environmental levies

No further announcements were made regarding increases and/or changes in environmental levies, plastic levies and fuel levies.

Manufacturing incentives and Export Processing Zone amendments

The manufacturing incentives and export processing zone repeals have been made effective in December 2020 with a phased-out approach. These amendments were made, in part, to comply with the requirements of the European Union ("EU") for the removal of Namibia from the list of non-cooperative jurisdictions as such incentives are regarded by the EU as harmful preferential tax treatment. Namibia was removed from the EU list in February 2021.

Other 2018 tax proposals

No mention was made of the various other income tax and VAT changes that have been proposed by the Ministry of Finance over a period of time. We have prepared a summary of the remaining 2018 tax proposals – on the next page.



| Tax Proposals | Mid-year budget October 2019 | HLPNE recommendation | Budget statements 2020 | Budget Statement 2021 |
|--|--|--------------------------------------|---|--------------------------------------|
| Moving to a residency/ hybrid tax system | Still under consideration | Delay for indefinite period | No specific comment was made, potentially still under review but with consultations to take place | No mention |
| Taxation of trusts as companies Eliminating base eroding tax holidays and preferential tax rates Removing conduit pipe principle | Certain to be tabled Certain to be tabled | Tax only trading trusts | Still under review with consultations to take place | No mention |
| Taxation of commercial activities of charitable, educational & religious institutions | Certain to be tabled | Tax trade activities only | Still under review with consultations to take place | No mention |
| Changing wear & tear claim to 5 years | Unlikely to be tabled | No recommendation | No specific comment was made, potentially still under review but with consultations to take place | No mention |
| Prohibited deductions – Royalties | Under consideration Unlikely to be tabled | Recommend suspension of introduction | No mention Proposal withdrawn | No mention |
| Prohibited deductions – Royalties for diamond mining entities | | | | |
| Prohibited deductions – Foreign losses | Certain to be tabled | No comments | No specific comment was made, potentially still under review but with consultations to take place | No mention |
| Assessed losses to be capped at 5 years | Unlikely to be tabled | Suspend for indefinite period | No mention | No mention |
| Proposal to change individual tax tables | Unlikely to be tabled | No specific recommendation | No mention | No mention |
| N\$ 0 - N\$ 50 000 | Not taxable | | | |
| N\$ 50 001 - N\$ 100 000 | N\$ 0 + 17% | | | |
| N\$ 100 001 - N\$ 300 000 | N\$ 8 500 + 25% | | | |
| N\$ 300 001 - N\$ 500 000 | N\$ 58 500 + 28% | | | |
| N\$ 500 001 - N\$ 800 000 | N\$ 114 500 + 30% | | | |
| N\$ 800 001 - N\$ 1 500 000 | N\$ 204 500 + 32% | | | |
| N\$ 1 500 001 - N\$ 2 500 000 | N\$ 428 500 + 39% | | | |
| Over N\$ 2 500 001 | N\$ 818 500 + 40% | | | |
| Formalizing the 3:1 thin capitalization ratio | Certain to be tabled | No comment at time report was issued | No mention | No mention |
| Introduction of VAT on property share transactions | Still under consideration | No mention | No mention | No mention |
| Investigating introduction of a lower tax regime for small businesses as a means of encouraging entrepreneurship and business growth. | New on the table – but potentially a revisiting or expansion of the Presumptive Tax Regime first mentioned in 2014 | No recommendation | No mention | No mention |
| Proposals for Namibia to join in exchange of information for tax purposes and ratify the OECD Convention on Mutual Administrative Assistance | Certain to be tabled | | Only mention in general terms | No mention |
| Capital gains tax | No mention | | No mention | No mention |
| Transfer duty on property owning company/ close corporation | No mention | | No mention | No mention |

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