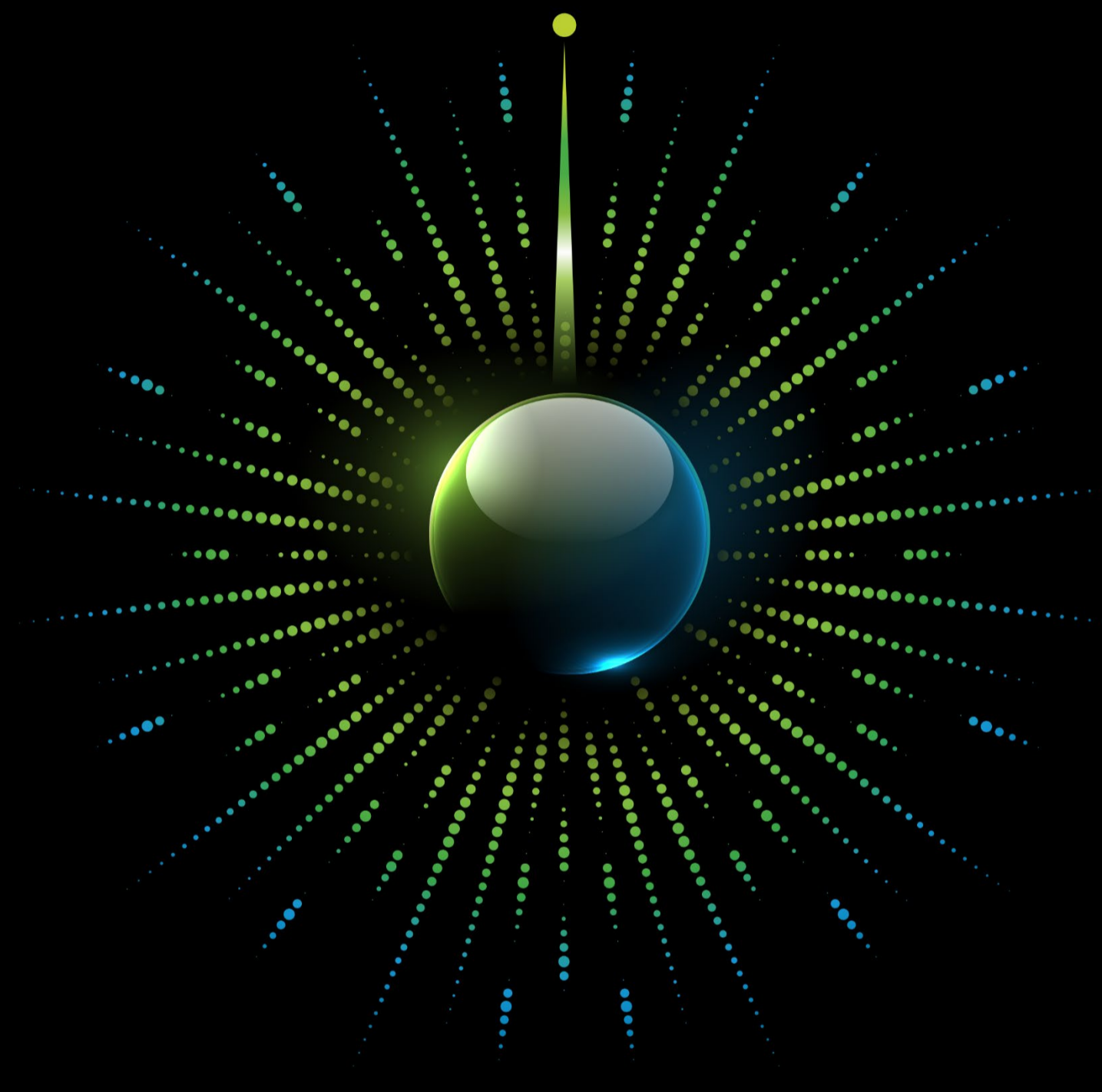


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Budget Newsletter 2022/23
Namibia

Making an impact that matters



Contents

| | | |
|----|--|---|
| 01 | What the budget offers..... | 4 |
| 02 | Budget Snapshot | 4 |
| | Economic outlook | 4 |
| | Fiscal snapshot..... | 5 |
| | Debt stock and interest payments | 5 |
| | Fiscal policy | 5 |
| | Tax proposals | 6 |
| | Tax incentive programme..... | 6 |
| | Sin taxes | 7 |
| | Personal income tax rates | 7 |
| | Environmental levies | 7 |
| 03 | Contacts | 8 |



Click on the titles to navigate

01

What the budget offers

02

Budget Snapshot

03

Contacts

"I would like to share my cautious optimism over the near-term future of our country. . . . by our estimates, we are seeing some light at the end of the tunnel, although we are not yet out of the woods!"

Minister of Finance, Ipumbu Shiimi
24 February 2022.

What the budget offers

Finance Minister Ipumbu Shiimi delivered his 2022/23 Budget Statement in Parliament on 24 February 2022. With more than a third of Namibia's current population being between the age of 15 and 34, the Minister dedicated the budget to the youth under the theme "Reimagining, a Better Future for the Youth".

The Minister highlighted the fact that input from various stakeholders were sought during the formulation of the budget. The stakeholders included, among others, youth, business community, organised labour representatives, professional bodies, chief whips of various political parties, civil society, regional authorities and various ministries and government agencies. The consistent themes from the consultations were, reignition of economic growth, employment creation and investment in the creation of opportunities and activities for the youth.

In line with the budget theme the lion's share of the 2022/2023 budget allocation went to the sector that primarily serves the youth and the following explicit programmes targeted at the youth were noted:

- A N\$50 million funding from the Development Budget to upgrade and renovate the Independence Stadium;
- Approved loans of N\$72.2 million by the Development Bank of Namibia for the benefit of youth owned businesses. In addition, Development Bank of Namibia will finance the Mentorship and Coaching Programme for the benefit of the youth and has also introduced a specific skills-based loan with a total of N\$11.2 million;
- The soon to be gazetted Code of Good Practices which will provide preferential treatment and reservation scheme for youth owned enterprises for contracts for the supply of goods valued at N\$50 million;
- The infrastructure expansion of certain vocational training centres will be expedited;
- A women and youth loan scheme to acquire farmland has been developed by AgriBank. To date N\$73.2 million for 35 hectares of land and N\$43 million of livestock purchase have been approved.
- N\$86 million green hydrogen scholarship programme has been made available by the German Ministry of Education and Research;
- 70 youth enterprises benefited from the Sustainable Development Goal Investment Facility to the tune of N\$10 million launched by the Environmental Investment Fund (EIF) of Namibia; and
- The EIF will launch a green concessional loan facility targeting youth entrepreneurs for up to N\$2 million per economic viable investment.

Budget Snapshot

Economic outlook

The global economy has recorded moderate recovery following the abating impact of the covid-19 pandemic. The global economy is expected to grow by 4.4% in 2022 while the Sub-Saharan region is expected to grow by 3.7%. Closer to home South Africa is expected to grow by 1.9% in 2022. The emerging of the Omicron variant of covid is contributing to the low growth rates in the region.

During 2016 to 2020 the Namibian economic experienced stagnant growth, with average growth of 1.9 percent. The situation was brought about by a combination of droughts, low commodity prices and recession that resulted in slow economic activity. The outbreak of COVID-19 then exaggerated the situation.

In 2016 a fiscal consolidation policy was introduced to reduce the deficit and stabilising debt levels. This fiscal consolidation resulted in expenditure reduction from 42.8 percent of GDP in 2015/16 to 37.6 percent of GDP in 2019/20. Structural challenges in the economy and later the outbreak of the pandemic however led to a continued decline in revenue. Consequently, the budget deficit increased from 5.0 percent of GDP in FY2019/20 to 8.0 percent in FY2020/21, while the total debt stock rose from N\$100.4 billion to N\$135.6 billion.

The domestic economy is projected to grow by 1.2 percent in 2021, by 2.9 percent in 2022 and accelerating to 3.7 percent in 2023. The projected growth for 2022 is 0.7 percent lower than growth estimated in the Mid-Year Budget Review, mainly due to the impact of the new Covid variant in December 2021. Better than expected recovery in the secondary industries and positive growth of 4.9 percent for net tax revenue is expected to provide support for overall growth.

01

What the budget offers

02

Budget Snapshot

03

Contacts

Fiscal snapshot

For the FY2020/21 year the Minister reported revenue and grants of N\$57.8 billion, a one percent decrease compared to FY2019/20. Revenue categories that decreased were income tax on individuals (2.7 percent), VAT (24.9 percent), other taxes on income and profits (23.2 percent), withholding tax on interest (18.1 percent) and other taxes (10.6 percent). Tax on international trade (SACU) recorded a strong growth from N\$18.9 billion to N\$22.3 billion.

The revised revenue estimate for FY2021/22 was reported to be N\$53.6 billion. By the end of January 2022, the preliminary revenue outturn for FY2021/22 stood at N\$44.1 billion, reflecting a collection rate of 84.8 percent. Strong collections at a higher than annual targets from transfer duties, stamp duties and non-resident shareholders tax have however been reported. Final expected revenue for FY2021/22 will be N\$53.4 billion. SACU receipts for 2021/22 declined by N\$7.5 billion to about N\$14.8 billion. Further decreased SACU receipts are expected for 2022/23.

In FY2022/23 total revenue is projected to increase to N\$59.7 billion. The increase is expected from diamond mining tax and dividends from Namdia, DebMarine Namibia and Namdeb Holdings. Proceeds from the partial listing of MTC and dividends from the Namibia Post and Telecom Holdings will also contribute to increased revenues.

From FY2023/24 going forward, revenue is expected to increase further as the economic activity begins to recover and as COVID-19 subsides.

The Minister further reported total expenditure for FY2020/21 to be N\$72.0 billion, representing an increase of 7.0 percent compared to FY2019/20. Revised estimates for FY2021/22 by the end of January 2022 were N\$57.4 billion.

Overall, the budget deficit for FY2021/22 is expected to stay unchanged at 8.6 percent of GDP and the budget deficit for the FY2022/23 financial year is projected to be at 5.6 percent of GDP at N\$11.1 billion.

Debt stock and interest payments

The continuing budget deficit necessitates new borrowings. Borrowings from both domestic and foreign sources will increase public debt to N\$140.3 billion or 71 percent of GDP. The composition of the debt stock will consist of N\$104 billion domestic debt and N\$36 billion foreign debt.

As expected, the increase in the public debt stock will have its flow-on effect on debt servicing costs. Interest payments for 2022/23 will increase to N\$9.21 billion in response to new borrowing to fund the budget deficit. Debt servicing will represent 15.4% of total revenue.

Fiscal policy

The Minister maintained the fiscal policy stance measures and strategies outlined in the 2021/22 Fiscal Strategy and reinforced in the Mid-Year Budget Review Policy Statements. Government will therefore continue with the implementation of the following interventions:-

- Continuing work on the **Economic Diversification Strategy** - aimed at promoting macroeconomic stability, fiscal sustainability and support socio-economic objectives of job creation and the reduction of poverty and inequalities;
- Consistently implement the **gradual fiscal consolidation programme** to reduce budget deficit, and moderate the increase in debt through the following actions:
- Speed up and periodically assess the work of the Steering Committee on **wage bill reforms** aimed at reducing personnel expenditure targeting the end of MTEF,
- Improve the **governance model of PSEMAS**, review benefit structure and increase administrative efficiency
- Improve the **governance model of Public Enterprises** through the implementation of the Public Asset Ownership Policy.
- Revenue mobilisation, including non-tax revenue such as dividends from public enterprises;
- Implementing recommendations arising from public expenditure reviews in the health and education and

01

What the budget offers

02

Budget Snapshot

03

Contacts

- extend such targeted reviews to other sectors;
- Employ **alternative forms of financing**, including PPPs in the funding of infrastructure development and service delivery; and
- Fast-track **reforms in the public procurement function** as regards decongestion of the process and amendment of the law.

Tax proposals

From a tax administration and policy perspective, the Minister confirmed that a principle decision was taken to delay the implementation and announcement of tax proposals that could stifle the economy. The comment brings about a number of questions in respect of the 2021 draft Income Tax Amendment bill that includes amongst others the introduction of local withholding tax on dividends and deeming provisions relating to trading trust. In the Minister's further explanation it would however seem if these proposals will be delayed.

What seems to be in pipeline are -

- the reduction of the non-mining corporate tax rate,
- the increase in tax deductibility of pension fund and educational policy deductions to N\$ 150 000 per annum;
- a review of the withholding tax on interest on unit trusts;
- measures for collection of freight tax;
- the zero-rating of VAT on sanitary pads.

It is concerning that a review of the non-mining corporate tax rate has been pushed out toward the latter part of the MTEF as Namibia is increasingly become uncompetitive on this front. South Africa for example has reduced its corporate tax rate to 27% while the corporate tax rate of Botswana is 22%.

Similarly, the zero-rating of VAT on sanitary pads will be introduced only towards the end of the MTEF. This should have been a fairly easy amendment to have been made sooner especially as it was announced in the 2020/21 budget statement already.

The Minister once again mentioned that taxpayers will in future be required to provide proof of actual tax withheld (withholding tax on services) from payments. No further details were provided, but it would appear if the comment relates to the strengthening of the administration regarding withholding tax on services.

Tax incentive programme

The Minister announced the introduction of further ITAS tax relief programme for another twelve months. The programme will be modified meaning, in our view, that it would not be as generous as the phased programme that ended on 31 January 2022.

We expect the percentage penalties and interest that will be written off under the new relief programme to be lower than the previous one. With the programme that ended in April 2021 all penalties and 95% of interest were written off if a taxpayer was in good standing in respect of submission of returns and tax capital payments. All penalties and 75% of interest were written off during the second phase of the relief programme that ended on 31 January 2022, provided the taxpayer was in good standing.

We further expect the programme to have similar requirement as the previous one in that a taxpayer needs to be registered on ITAS and needs to be in good standing.

Significant time was spent during the previous relief programme to have returns processed that were submitted pre-ITAS but that were not migrated or correctly migrated onto ITAS. Similarly, we experience a number of challenges with the allocation of payments made pre-ITAS and post-ITAS. We therefore urge taxpayers to ensure that their accounts are up to date and to instigate the necessary steps without waiting for NamRA to do the relevant processing or allocations.

01

What the budget offers

02

Budget Snapshot

03

Contacts

Sin taxes

As per SACU agreement, the following increases, effective from 23 February 2022 have been announced by the Minister,–

- An increase of 11c for a 340 ml can of beer or cider;
- An increase of 17c for a 750ml bottle of wine;
- An increase of 76c for a bottle of sparkling wine;
- An increase of N\$ 4.83 for a bottle of spirits;
- An increase of N\$ 1.03 for a packet of 20 cigarettes;
- An increase of N\$ 37c for a 25 gram of piped tobacco; and
- An increase of N\$ 6.77 for a 23 gram cigar

Personal income tax rates

For the ninth year in a row personal income tax rates have not been changed. These brackets are now clearly out of line with inflation and someone earning as little as N\$ 4 167 per month is subject to tax.

Environmental levies

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

01

What the budget offers

02

Budget Snapshot

03

Contacts

Contacts

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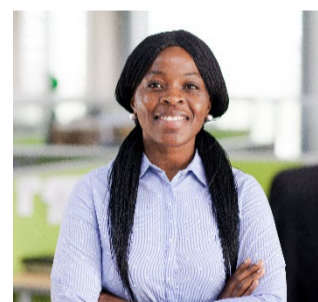
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01

What the budget offers

02

Budget Snapshot

03

Contacts



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