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Year of Expectations

Deloitte commentary on the Namibian Budget 2024/25

MAKING AN IMPACT THAT MATTERS since 1845

Continuing the legacy of H.E. Dr. Hage G. Geingob by caring for the Namibian child.

"We should carefully balance between our very real, very urgent, and very large spending requirements and putting something aside to leave a better country to the future generations."

Minister of Finance & Public Enterprises
Mr. Iipumbi Shiimi, 28 February 2024

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Foreword

Foreword

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"Continuing the legacy of H. E. Dr. Hage G. Geingob by caring for the Namibian child"

Minister of Finance, Minister Iipumbu Shiimi, started his budget address by narrating his recent trips to Windhoek schools, fitting into this year's budget theme. Later in his address he announced a capital budget of N$970 million to the Ministry of Education to cater for the infrastructure gap in this sector. A total budget of N$18.4 billion has been allocated to this Ministry, an increase of 10% from the FY2023/24 year.

At the backdrop of global growth that is estimated to remain steady at 3.1% in 2023 and 2024 and increasing slightly to 3.2% in 2025, the domestic economic outlook has improved significantly. Namibian GDP growth is estimated at 5.6% in 2023, 4% in 2024 and 3.9% in 2025. The Namibian growth is mainly attributed to the natural resource sector, ongoing petroleum exploration and the surge in uranium production.

Domestic prices moderated from 6.1% in 2022 to 5.9% in 2023 and the latest inflation data shows a rate of 5.4%.

In the light of increased cost of living, balancing the books and recognising our Late President's desire for an increase in the old age grant, the Minister upped the monthly grant from N$1 400 to N$ 1 600.

The FY2023/24 revenue estimates have been revised upwards to N$81.1 billion with a further increase to N$90.4 billion expected in FY2024/25, equating to a 11.5% increase. The current tax amnesty programme has contributed N$2.5 billion to revenue collection and significant SACU revenue adjustments are expected.

The FY2024/25 budget is underpinned by three policy pillars, stimulating domestic demand, accelerating investment in productive infrastructure and fiscal prudence. A budget of N$100 billion was tabled, with a N$12.7 billion development allocation and a N$74.6 billion operational allocation.
The budget deficit for FY2024/25 is estimated at N$8.9 billion, 3.2% of GDP.

In the spirit of prior budgets to not introduce tax proposals that will stifle economic recovery but also to make the Namibian tax system more competitive the Minister announced over ten tax proposals. This is the most tax proposals announced in many years. In the Namibian environment all of these proposals need to be further considered, converted into draft bills and tabled in Parliament before they will become effective. Only once the draft bills have been passed through Parliament and gazetted will these proposals become law. Effective due dates will be clearly indicated in the gazetted laws.

We have set out the revenue collection, expenditure outcomes and tax policies in more detail below.

Economic Outlook

Economic Outlook

Fiscal Policy

The Minister noted enhanced fiscal fundamentals driven by improved tax administration and domestic economic recovery which resulted in revenue collection of N$72 billion – a collection rate of 90.6% for the ten months of FY2023/24. Strong collection rates were reported for corporate income tax with 109.6%, 89.7% for VAT and 130% for withholding taxes for the period.

The extended tax incentive programme that has been in place since 1 April 2023, has yielded revenue of N$2.5 billion from 1 April 2023 to 31 January 2024. In our experience the incentive programme is often used to clear unallocated or suspense balances. It would therefore have been interesting to see a breakdown of the amnesty revenue to understand if such amounts are included in the amount collected and how much of the amount collected was "new" revenue.

As a result of the strong revenue outturn, the FY2023/24 revenue estimates have been revised upwards by N$2.5 billion to N$81.1 billion.

The FY2023/24 total expenditure was budgeted at N$80.3 billion. At the end of January 2024, the budget execution rates stood at 73,6% for operational expenditure and 64.5% for the development budget. The spending rate is below spending rates of the past and overruns are not expected.

For the FY2023/24 year total debt stock stood at N$151.3 billion, equivalent to 61.3% of GDP. Debt growth has however stabilised and the debt to GDP metrics have started to decline, mainly due to stronger growth in nominal GDP.

The budget deficit for FY2023/24 is expected to improve to 3.2%, compared to initial estimates of 4.2% at mid-year, the lowest estimated deficit in a long time.

Fiscal Priorities

The largest single day debt maturity in the history of Namibia, the USD750m Eurobond, is due for repayment in October 2025. We were expecting some concrete plans from the Minister for the repayment of the Eurobond. In line with our expectations, the Minister has confirmed that SACU receipts of N$3.5 billion in FY2024/25 and N$2 billion in FY2025/26 will be transmitted to a sinking fund for the repayment of two-thirds of the Eurobond.

The remaining portion will be refinanced in the most cost-effective way, with consideration to the domestic market and Development Finance Institutions.

Economic Outlook

Revenue outlook

Total revenue of N$90.4 billion is estimated for FY2024/25, an increase of 11.5 percent from the revised estimates of the previous year. The substantial boost to revenues stem from a positive adjustment in SACU receipts, an increase from an estimate of N$24.3 billion to N$28 billion.

In practice, duties are collected by all Member States and transferred to the Common Revenue Pool on a quarterly basis. Each year, revenue shares are determined by the Council of Ministers (Ministers of Finance and Trade of each Member State) and payouts to Member States are made on a quarterly basis. Pay-outs are calculated with a sharing formula which has a customs component, an excise component and a development component.

The customs share is allocated on the basis of each country's share of intra-SACU imports. The excise component is allocated on the basis of each country's share of Gross Domestic Product (GDP). The development component is a fixed percent of total excise revenue and is distributed according to the inverse of each country's GDP per capita.

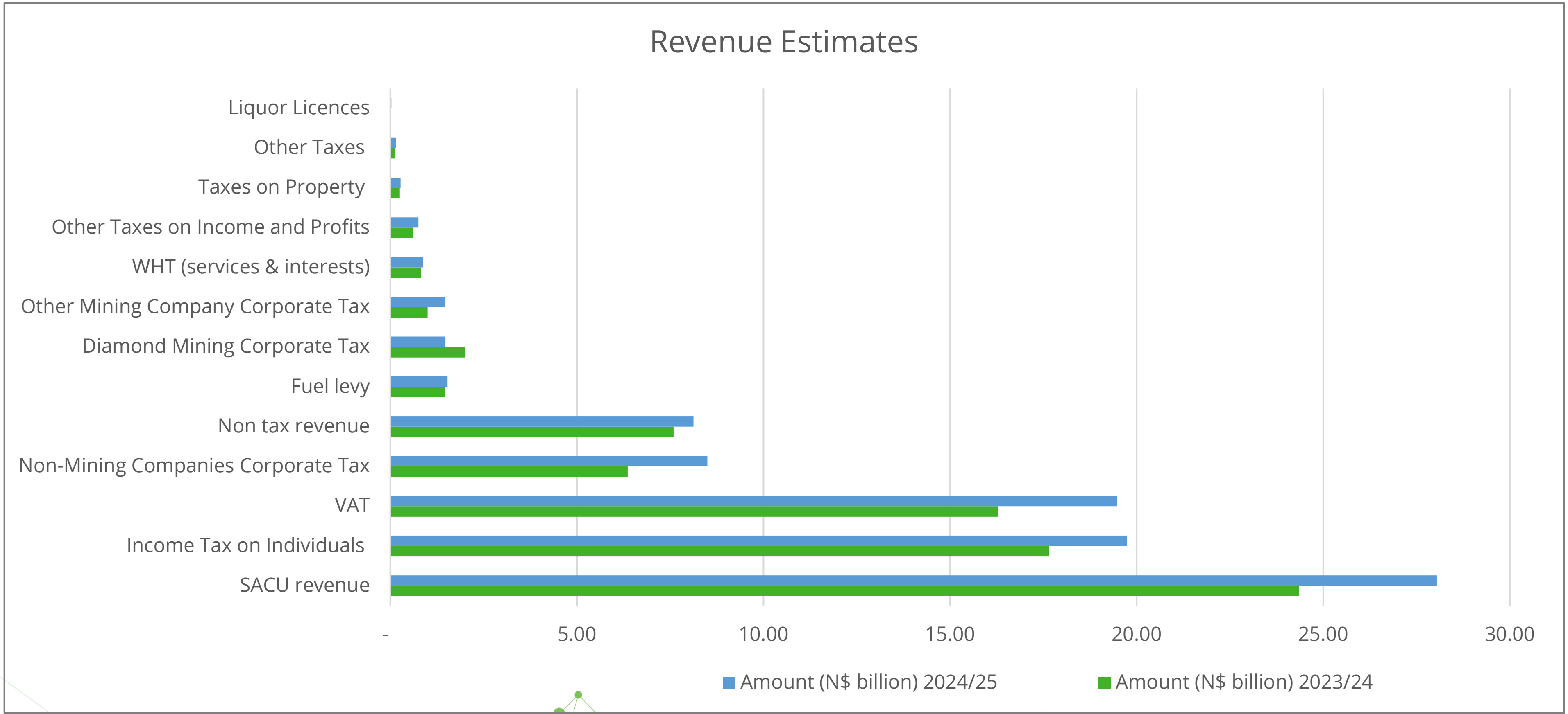
Several domestic revenue streams have also been revised upwards, such as individual income tax which is estimated to increase by N$1.3 billion over the revised estimates of FY2023/24, VAT is estimated to increase by N$1.7 billion while non-mining company taxes are estimated to increase by N$759.4 million.

The revenue estimates for FY2024/25 include expected dividends of N$1.2 billion following the anticipated dissolution of the Namibia Post and Telecom Holdings Company (NPTH) during the financial year.

An additional N$500 million is expected from the sale of the remaining 9.0 percent shares in the Mobile Telecommunication Company (MTC).

The revenue estimates also include N$1.4 billion in once-off legacy tax liabilities of selected public enterprises. This amount is being budgeted as an expense as well, therefore resulting in a neutral position for the fiscus.

Economic Outlook



Economic Outlook

Expenditure Estimates

The FY2024/25 budget is underpinned by three policy pillars, stimulating domestic demand, accelerating investment in productive infrastructure and fiscal prudence.

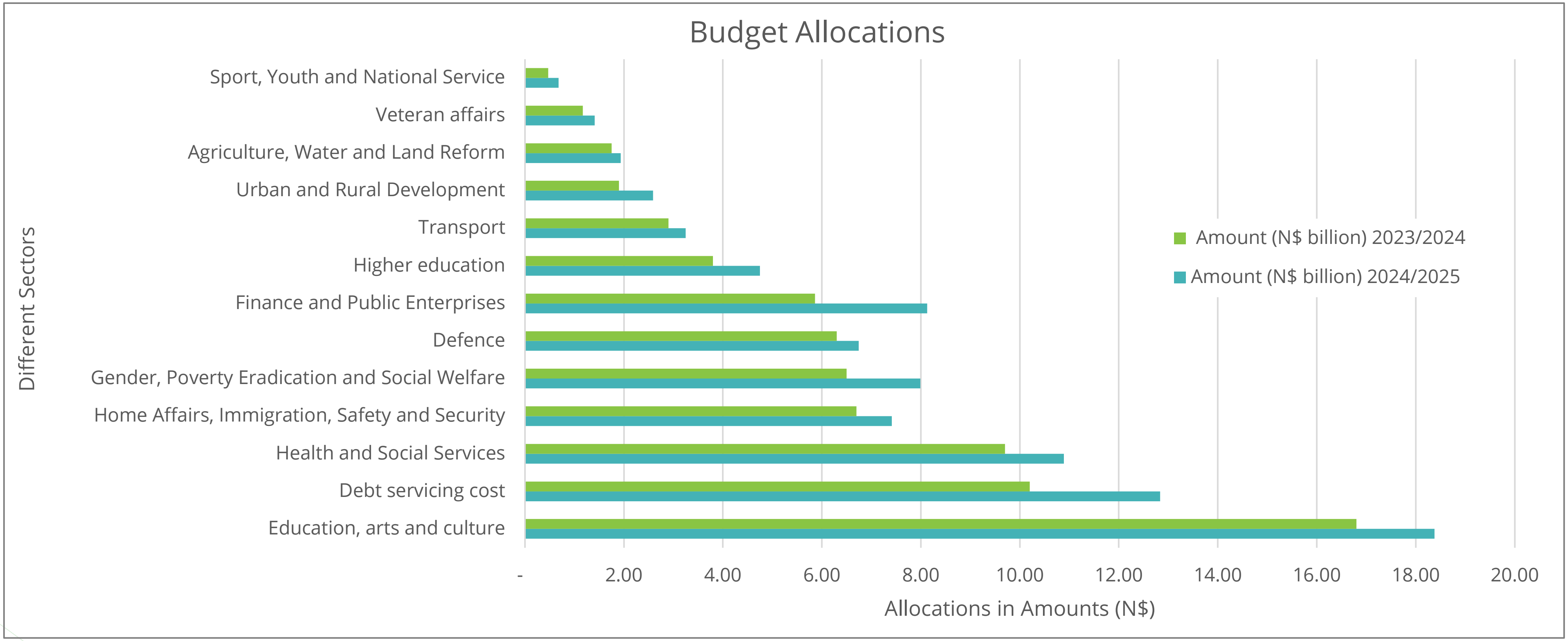
A budget of N$100 billion was tabled, with a N$12.7 billion development budget and a N$74.6 billion operational budget. The budget deficit for FY2024/25 is estimated at N$8.9 billion, 3.2% of GDP.

Economic Policy Priorities

The macroeconomic policy proposals are aimed at supporting economic growth through accelerating infrastructure development with the following most significant policy priority allocations:

- N$9.1 billion over the MTEF for railway infrastructure; N$2.5 billion in FY2024/25 for upgrading and rehabilitation and N$6.6 billion in the later years.
- N$970 million for the construction and renovation of classrooms and other school infrastructure. This particular allocation is a reflection of the recognition of the urgency to close the infrastructure gap in the education sector.
- N$700 million to the informal settlements upgrading, massive land servicing and other programmes to improve access to housing opportunities nationwide. Combined with closer collaboration with the private sector, this allocation is aimed to improve access to services, especially in the informal settlements
- N$200 million in FY2024/25 and N$200 million in FY2025/26 has been made to support NamPower in funding the development of the 40MW Otjikoto Biomass Power Station. This allocation is to assist with fast tracking domestic energy generation and transmission projects to increase local generation capacity and improve system stability.
- N$2.2 billion in FY2024/25 for water related projects, including N$1.1 billion in loan funded projects for drilling of boreholes, expansion of pipelines and various rural water supply projects to improve access to water within communities.

Economic Outlook



Tax Policy Proposals

Tax Policy Proposals

Tax proposals

The Minister's tax policy stance was a combination of sentiments not to introduce new tax policy proposals which may stifle economic recovery and increasing the competitiveness, fairness and equity of the Namibian tax system. With increased global pressure to level the playing fields for local and foreign investors and to adhere to global tax standards, a number of tax proposals were announced.For the first time in many years, over ten tax proposals were announced. It is important to note that even though the Minister did refer to implementation dates for some of the proposals, all of these need to be enacted as law before they become effective.

Individual income tax rates

The individual income tax threshold will increase from the current N$50 000 to N$100 000. The proposal was initially made in the 2023 main budget and indications are now that it will be effective from 1 March 2024. With an effective date of 1 March 2024, we expect the change to be retrospectively applicable because we do not foresee the amendment being made within the next one to two months. The proposed changes are expected to account for N$646 million savings for taxpayers.

The current tables are:

Taxable income	Rate of tax
N$ 0 - N$ 50 000	Not taxable
N$ 50 001 - N$ 100 000	N$ 0 + 18%
N$ 100 001 - N$ 300 000	N$ 9 000 + 25%
N$ 300 001 - N$ 500 000	N$ 59 000 + 28%
N$ 500 001 - N$ 800 000	N$ 115 000 + 30%
N$ 800 001 - N$ 1 500 000	N$ 205 000 + 32%
Over N$ 1 500 001	N$ 429 000 + 37%

The proposed tables are:

Taxable income	Rate of tax
N$ 0 - N$ 100 000	Not taxable
N$ 100 001 - N$ 150 000	N$ 0 + 18%
N$ 150 001 - N$ 350 000	N$ 9 000 + 25%
N$ 350 001 - N$ 550 000	N$ 59 000 + 28%
N$ 550 001 - N$ 850 000	N$ 115 000 + 30%
N$ 850 001 - N$ 1550 000	N$ 205 000 + 32%
N$ 1 550 000 +	N$ 429 000 + 37%

Tax Policy Proposals

An illustration of the impact of the changes are:

Annual taxable earnings	Annual tax per current tax tables	Annual tax per proposed tax tables	Annual saving	Monthly saving	Tax savings %
NAD	NAD	NAD	NAD	NAD	
50 400	72	-	72	6	100%
60 000	1 800	-	1 800	150	100%
99 000	8 820	-	8 820	735	100%
250 000	46 500	34 000	12 500	1 042	27%
450 000	101 000	87 000	14 000	1 167	14%
650 000	160 000	145 000	15 000	1 250	9%
900 000	237 000	221 000	16 000	1 333	7%
1 600 000	466 000	447 500	18 500	1 542	4%

- Further changes to all the tax brackets are expected in 2025/26 and 2026/27 to adjust for inflation creep.

Tax Policy Proposals

Non-mining corporate tax rate

The Minister confirmed the reduction of the non-mining corporate tax rate from the current 32% to 31% effective 01 January 2024, 30% effective 01 January 2025 and to 28% during FY2026/27.

Reference to the effective dates, especially the rate change of 1 January 2024 is concerning because history has shown that amendments take some time to be promulgated. In addition, tax rate amendments are normally effective for tax years commencing on or after a particular date. In the absence of clarity at this point, the question is whether a taxpayer has to apply two tax rates in a particular year. For example, a company with a June 2023 year-end, would it have a tax rate of 32% for the period July 2023 to 31 December 2023 and a tax rate of 31% for the period January 2024 to June 2024?

Broadening the tax base

International pressure to adhere to global tax standards requires the Minister to make certain tax amendments, particularly around provisions that may seem to result in an unequal application of the tax laws for different sectors and different investors. In the light of this and to complement the reduction in the non-mining tax rate by broadening the corporate income tax base through the following proposals:

- Replacement of the 3:1 thin capitalisation ratio with a 30% limit on interest deductions. No details were provided and some questions that come to mind are whether all interest payment deductions will be limited irrespective of the debt: equity ratio and whether there are any exceptions. The safe harbour ratio and the option to apply for an exception have only become effective on 1 January 2023 and the announcement now seems to be a turnaround of some sorts.
- Limitation of the carry forward of assessed tax losses - a limitation of carrying forward of tax losses to 5 years for normal companies and 10 years for companies operating in the natural resources sectors. It appears the rationale for granting a longer lapsing period for the natural resource sectors is the capital intensiveness of these industries. Should that be the case, we hope the Minister considers industries other than the natural resources sectors as well, like renewable energy and manufacturing sectors. With not much details provided, we hope further work and consultation will be undertaken that includes the consideration of a longer period for sectors beyond the natural resources sector, roll-forward provisions in certain instances and the like.

Tax Policy Proposals

Broadening the tax base continued

- Introduction of a local 10% dividend tax effective on 01 January 2026 to level the investment arena for local and foreign investors. We have performed a high-level analysis of the 28% corporate tax rate amendment and the introduction of the 10% local dividend tax in the light of the rationale of the latter proposal. As can be seen from the illustration below, a local investor will be put on the same footing as a foreign investor but would potentially be in a worse position than an investor resident in a treaty country (depending on the treaty).
- Removal of the non-resident shareholder tax exemption on dividends from insurance profits. The proposal is aimed to align the taxation of shareholders in the insurance industry with investors in other industries. The effective date will be in the FY2024/25 year and anticipated additional revenue per annum will be N$180 million.
- Introduction of the previously announced Special Economic Zones (SEZ) regime. Participants in the SEZ will be subject to a corporate income tax rate of 20%. The normal deductions in terms of capital allowances will apply in the SEZ regime while VAT will be zero rated. The SEZ bill is expected to be tabled in the National Assembly during FY2024/25, in advance of the final expiration of the Export Processing Zone (EPZ) regime in December 2025.

	Higher CIT rate with no dividends tax	**Reduced CIT rate with dividends tax**
Corporate income tax (CIT) rate [A]	30%	28%
Dividends tax rate - local shareholder [B1]	0%	10%
Dividends tax rate - foreign shareholder [B2]	10%	10%
Dividends tax rate - foreign shareholder DTA* [B3]	5%	5%
Taxable income [C]	150 000 000	150 000 000
Corporate income tax [D] = [C]x[A]	45 000 000	42 000 000
Net corporate profit avaliable for dividends [E] = [C]-[D]	105 000 000	108 000 000
Local shareholder: Dividends tax [F] = [E]x[B1]	-	10 800 000
Non-resident shareholder: Dividends tax [F] = [E]x[B2]	10 500 000	10 800 000
Non-resident shareholder (DTA): Dividends tax [F] = [E]x[B3]	5 250 000	5 400 000
Total taxable income	150 000 000	150 000 000
Total tax [D]+[F]	45 000 000	52 800 000
Effective tax rate : local shareholder	**30%**	**35%**
Total taxable income	150 000 000	150 000 000
Total tax [D]+[F]	55 500 000	52 800 000
Effective tax rate : foreign shareholder	**37%**	**35%**
Total taxable income	150 000 000	150 000 000
Total tax [D]+[F]	50 250 000	47 400 000
Effective tax rate : foreign shareholder DTA	**34%**	**32%**
*Assuming the tax treaty reduces the 10% rate to 5%		

Tax Policy Proposals

SME tax rate

The Minister also announced a proposal for the tax rate of SMEs with an annual turnover below a pre-defined threshold to be set at 20%.

This will bring relieve for the SME sector, but further details need to be provided relating to the threshold and timing of the amendment.

Other corporate tax deductions

During the October 2023 mid-year budget review, the Minister announced the introduction of an additional tax deduction for internship programmes. The proposal is aimed at further incentivising employers to enrol more interns by providing an additional corporate tax deduction. The Minister commented on the proposal again but did not provide further details as to the extent of the additional deduction, what would qualify as internship, the percentage of additional deductions and the effective date of the incentive. The financial impact for Government is expected to be N$126 million.

To address urban decay and to maintain existing infrastructure within the inner cities, the Minister introduced a tax depreciation allowance of 10% of the costs to erect, add, extend or improved buildings used for trade purposes. The proposal seems to broaden the existing building allowance provisions that are too narrow to include extensive improvements to buildings.

VAT proposals

The mandatory VAT registration threshold will be increased from N$500 000 to N$1 000 000 of annual taxable activities to provide relieve for some SMEs from VAT administration and freeing capacity at NamRA to focus on large taxpayers. The expectation is that the increased threshold will impact 23 000 SMEs.

No mention was made of the voluntary registration threshold which currently stands at N$200 000, but we expect that this threshold will also be increased in line with the mandatory registration threshold.

The Minister further proposed the introduction of a VAT e-invoicing system which will integrate and interface cash registers at businesses to ITAS. This envisaged digitalization initiative will, among others, improve NamRA's ability to collect, analyse and monitor tax data, lower administrative and compliance costs while minimizing VAT fraud and enhancing tax enforcement.

No details were provided as to the anticipated implementation dates for these announcements.

Tax Policy Proposals

Transfer Duties

Adjustment to transfer duties and stamp duties are proposed in line with inflation. The exemption level will be lifted from N$600 000 to N$1.1 million. Furthermore, the threshold to trigger the transfer duty rate of 8% will be increased to N$3.15 million in FY2024/25.

A supertax transfer duty and stamp duty bracket for luxury residential properties with a value above N$12 million will be introduced. No further details and no indication of the effective date were provided.

Sin Taxes

The following excise duties on the consumption of alcohol and tobacco took effect on 22 February 2024 in conformance with the SACU Agreement:

- a 340 ml can of beer increases by 10c;
- a 750 ml bottle of wine goes up by 18c;
- a 750 ml bottle of spirits will increase by N$3.90;
- a 23-gram cigar goes up by N$5.47; and
- a pack of 20 cigarettes, the duty rises by 98 cents.

Double Tax Agreements

International tax provisions in the main and mid-year budget statements for 2023/24 the Minister referred to the progress being made to renegotiate certain of our double tax agreements. Unfortunately, the Minister did not provide an update this time around, but we understand that progress is continuing on this front.

In addition, international tax standards relating to country-by-country reporting and other inclusive framework principles are being looked at and amendments to the tax law are considered.

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Contacts

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This guide is based on the Budget Statement for the 2024/25 Financial Year presented by the Minister of Finance & Public Enterprises on 28 February 2024.

The information contained in this guide is for general guidance only and is not intended as a substitute for specific advice in considering the tax effects of particular transactions. While every care has been taken in the compilation of the information contained herein, no liability is accepted for the consequences of any inaccuracies contained in this guide.

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