



COVID-19 Pandemic: Tax Relief Measures

Tax Alert 2/2020 - Namibia

The COVID-19 pandemic remains a challenge worldwide from a health, social and economic perspective. The preservation of the lives of those infected is the current priority as well as the containment of the disease to avoid its further spread which will overwhelm national healthcare systems.

In addition to the health impact, the pandemic has major adverse social and economic consequences which are already been felt due to the slowdown in economic activities resulting from the imposition of travel bans and lockdowns. The slowdown is causing a reduction in household spending and constraint cashflows for businesses and will continue to get worse as the days go by.

For an already vulnerable economy, keeping it stable amidst the pandemic is a mammoth but urgent and necessary task. Therefore, combined co-ordinated efforts from all stakeholders in Namibia are required to alleviate the ongoing negative economic and social consequences in addition to containing the further spread of the disease.

Namibia cannot afford a complete halt of the economy nor an increase of the unemployment rate. Revolving cashflow will keep the economy alive as far as possible. Without any interventions, businesses and households will not survive the negative effects of the COVID-19 pandemic.

The Organization for Economic Cooperation and Development (OECD) recently issued a statement urging countries to address the pandemic with coordinated policies and financing of the economy to cushion the negative impact of the virus. The OECD classified these policies into three categories – health care, people and firms. The latter mainly referred to tax measures to tackle the crises. In the wake of the statement a number of African countries e.g. Kenya, Uganda, Mauritius, Nigeria and South Africa have announced support packages that include tax relief measures.

We suggest some or all the following tax related measures could be implemented by the Ministry of Finance to mitigate the impact of COVID-19 on households and businesses. The objective of the measures is to keep the economy running and to avoid retrenchments as far as possible. These measures are in the form of foregone revenue collection, although only some of them will result in exchange of cashflow.

1. Non-payment of pay-as-you-earn (“PAYE”) for a period of 3 months

To assist employers with constraint cashflows as a result of the slowdown in economic activities and especially those that wish to retain employees that cannot ‘work from home’ (notably the tourism and leisure industries), employers could be granted a three to six month tax holiday relating to PAYE. Alternatively, employers could be allowed to only remit 50% of the PAYE for the next three to six months. The qualifying criteria should be that employers must retain all their employees up to 31 December 2020 and that employees be paid their net pay as normal (even when on leave) thereby allowing them to continue servicing their obligations and providing for their households.

2. Changes to individual tax rates

To assist employees that may earn less due to reduced working hours and that would require additional income to make ends meet, those earnings currently fall within the 18% and 25% tax brackets could be exempted from tax for the 2021 tax year. The 30%, 32% and 37% tax brackets should remain applicable.

Another consideration could be to provide relief for medical personnel and other emergency services relating to overtime during the crisis by allowing overtime to be taxed at a lower tax rate.

3. Temporary removal of VAT refund verification audit requirements

The VAT refunds for all periods already submitted should be paid out with immediate effect or allowed to be set off against provisional tax payment due in the next six months.

All VAT refunds for periods starting 1 April 2019 to periods ending December 2019 should be paid out with only minimal checks.

These measures will assist taxpayers with the much needed cashflows to keep their businesses afloat and not lay-off employees during the pandemic which may continue for a long time to come.

4. Zero-rating of materials, equipment and services relating to the fight against COVID-19

All materials and equipment required for the combating, prevention, treatment and management of COVID-19 should be zero rated to assist with the reduction of costs and cashflow and making it affordable to everyone.

Similarly, non-health care services (health care services are already exempt from VAT) by anyone, relating to the fight against COVID-19 should be zero-rated.

5. Exemption of import duties on imported materials and equipment relating to the fight against COVID-19

The import of all materials and equipment required for the combating, prevention, treatment and management of COVID-19 should be exempted from import duties and import VAT.

6. Expansion and extension of the current ITAS tax incentive programme

The current ITAS tax incentive programme running until 30 June 2020 offers the automatic waiving of penalties provided all taxpayers' tax returns are submitted.

This incentive could be expanded to include all interest payments with the same qualifying criteria.

The due date of the programme could also be extended until 31 December 2020 and should apply throughout the period and not only once per taxpayer as is currently the case.

7. Extension of due date for the submission of returns

Apart from the financial implications of the lockdown from 27 March to 16 April 2020 we also anticipate a reduction in resources that could make it difficult for taxpayers to meet their filing obligations.

We suggest that all tax returns due after 27 March 2020 and before 30 April 2020 be extended until 31 May 2020. A further extension may be required should the lockdown continue.

8. Corporate tax rate

Due to the slowdown in economic activities, many companies will have reduced taxable income in the current tax year as compared to the periods before the pandemic. To elevate their negative cashflows and quicken recovery, the non-mining tax rate should be changed to 22%. To discourage the outflow of profits, if any, a temporary withholding tax on local dividends could be considered. In the case of non-resident shareholders, the current withholding tax rate could also be temporarily increased.

9. Tax incentive for infrastructure and equipment related to the fight against COVID-19

To encourage and incentivise taxpayers to set up infrastructure and acquire equipment relating to the fight against COVID-19, such entities could be granted a 100% income tax deduction of the cost of such infrastructure or equipment in the year of the infrastructure set up or equipment acquisition.

10. Tax exemption on the manufacturing of materials relating to the fight against COVID-19

To encourage and incentivise businesses and individuals to join the fight against COVID-19, the revenue derived from manufacturing materials required for the prevention, combating treatment and management of the disease should be exempted from income tax. The costs thereof should be allowed as an income tax deduction against non COVID-19 taxable income but should not create a loss. Denied losses in one year should be carried forward to be set off from future non COVID-19 income in subsequent years, similar to the accumulated farming capex provisions.

11. Deduction of donations/contributions of infrastructure, equipment and material to fight against COVID-19

Businesses and individuals donating infrastructure, equipment and material aimed at the prevention, combating, treatment and management of COVID-19 should be allowed a tax deduction in their income tax returns for such donations/contributions. This will encourage and incentivise everyone to join in the fight against the COVID-19 pandemic.

A certificate must be obtained as proof of the donation/contribution.

12. Non-payment of SSC and VET Levy for 3 months

To assist taxpayers with constrained cashflows, all SSC contributions and VET levies should not be paid for the next 3 months. The additional cashflow can be used to sustain businesses and retain employment due to the slowdown in economic activities.

As mentioned above, the negative social and economic impact of COVID-19 require a combined co-ordinated effort from all stakeholders. The above measures will be in addition to measures already put in place by the Bank of Namibia, the commercial banks in Namibia and other stakeholders.

The absence of no relief measures for taxpayers will further strain cashflows forcing businesses to close their doors and let go of employees. That is a situation that Namibia cannot afford.

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