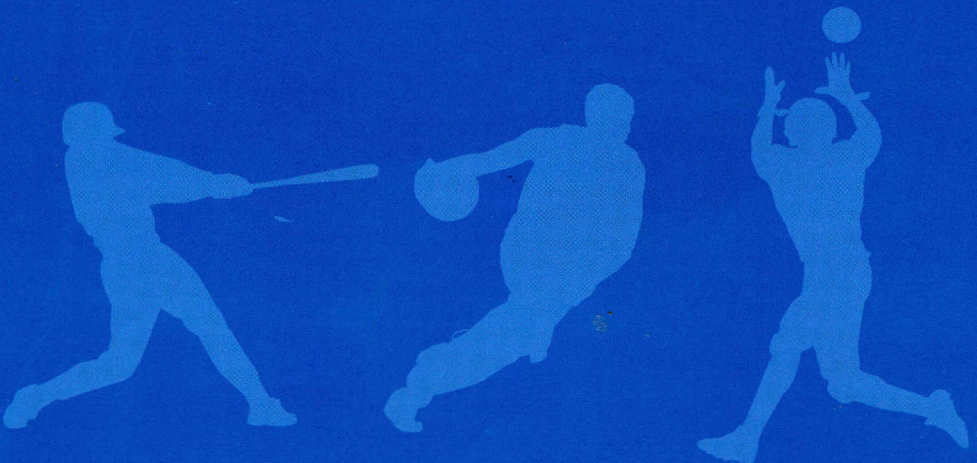




**BNSC**

**BOTSWANA NATIONAL  
SPORTS COUNCIL**

# **TAX NOTES**



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# Background

The purpose of this publication is to give both sporting bodies and taxpayers making donations to such bodies some guidance on how to access the benefit created under Section 51 of the Income Tax Act (the Act).

In order for us to understand this tax concession it is important to distinguish between sponsorships and donations.

## DEFINITIONS ARE AS FOLLOWS

### SPONSORSHIP

A sponsor is a person, in this context being a company or individual taxpayer, that pays for or contributes to the costs of an event, fixture, or broadcast in return for advertising.

### DONATION

A donation is something that is given, in the form of money or goods, made to some worthy cause without the expectation of reward.

Section 51 of the Act covers donations only and does not apply to sponsorships. Sponsorships imply a mutual benefit. The costs can be classified as tax deductible marketing expenses if there is a business motive, which would usually be the case, on the part of the sponsor.

Donations on the other hand are usually not tax deductible and it is important to understand that the purpose of Section 51 of the Act is to allow donations to sporting bodies or clubs as tax deductions to taxpayers making such donations.

These notes must be read with together with the Income Tax Act, the Value Added Tax Act and all relevant Tax Guidance notes issued by the Botswana Unified Revenue Service (BURS).





The following notes are a simplified version of how sporting bodies should go about obtaining an Approval Certificate. This Approval Certificate will enable sports clubs and sports associations to solicit donations from possible donors.

Once in possession of the tax Approval Certificate donors should be free to make donations to these bodies with the full knowledge that donations they make will be classified as tax deductible expenses provided certain conditions are met on their part (refer to the attached notes for donors).

Possession of the Approval Certificate makes it easier to get donations and it is therefore worth while for all sporting bodies to obtain tax Approval Certificates.

## APPLICATION PROCESS FOR OBTAINING A TAX APPROVAL CERTIFICATE

1. Form ITA 62 should be filed with the Ministry of Labour and Home Affairs, together with the following attachments
  - a. The deed or constitution under which the sporting body was formed
  - b. Certificate of registration (see appendices)
  - c. Copies of the latest audited financial statements
  - d. Details of members of the managing committee or board
2. The completed forms together with the above should then be handed in to the Ministry of Labour and Home Affairs – Director of Sports.
3. The Director of Sports will ask the Botswana National Sports Council to corroborate all of the details provided in the form ITA 62 and the supporting documentation.
4. Once the Director of Sports is satisfied that the sporting body is indeed a legitimate member of the Botswana National Sports Council in good standing the sporting body will then forward the application forms to the Commissioner General, BURS.
5. If the Commissioner General, BURS, is satisfied with the information given, he will issue a Tax Approval Certificate/Letter to the sporting body concerned.
6. The applying sporting body can then use the Approval Certificate to solicit donations. It is advisable that sporting bodies seeking donations provide photocopies of the Approval Certificate together with a valid receipt, in the form required by BURS, to document the donation.



# Notes for Donors

In taxation principle, donations are ordinarily not permitted as tax deductible expenses. The reasoning behind this general principle of taxation is that the rewards for charitable works by taxpayers should be celestial and not terrestrial. However section 51 of the Income Tax Act departs from this principle and allows donations to approved sports clubs or sports associations to be categorised as tax deductible expenses in determining taxable income.

The donors must satisfy themselves, by means of the Approval Certificate, that the sporting bodies to which they are making donations are in indeed approved by BURS.

Donors must obtain documentary proof (that would satisfy BURS) of the donation. Such proof together with a copy of the Approval Certificate must then be submitted to BURS together with the income tax returns for assessment.

Receipts and Approval Certificates must be attached to the annual tax returns that are submitted to BURS for tax assessment. These documents will permit BURS to allow donations as a tax deduction in determining taxable income.

Donating persons will therefore benefit by way of a reduced tax liability. If the donating company makes donations of P10000 to approved sporting bodies, then the company tax liability is reduced by 25% of the total donation i.e. P2500.

Donors must however meet certain requirements under the section 51 of the Act.

1. Donations made in one tax year must have a total value of not less than P1000, and not more than 20% of the donor's chargeable income for the relevant tax year (or accounting period where that is different from the tax year). The P1,000 limit is an aggregate of qualifying donations to one or more approved sporting organisations.
2. The donor must obtain a copy of the tax Approval Certificate and state the certificate number.
3. The donor must also obtain documentary proof, in the form required by BURS, from the sporting body to which the donation is made.
4. These documents must then be included in the annual income tax return for submission to BURS.





# Worked examples effect on taxable profits

## SCENARIO 1

### A PERSON DONATING P10 000 TO AN UNREGISTERED SPORTING BODY OR CLUB.

Income and expenditure of XYZ Pty (Ltd) for the year ended 31 March 2001

Income	200 000
Expenses (excluding donations)	140 000
Taxable profits	60 000
Tax @ 25%	15 000

The P10 000 donation is not considered to be a legitimate business expense and is not included in the tax deductible expenses

## SCENARIO 2

### A PERSON DONATING P10 000 TO AN APPROVED SPORTING BODY OR CLUB

Income	200 000
Expenses (including donations)	150 000
Taxable profits	50 000
Tax @ 25%	12 500

The P10 000 donation is considered to be a tax deductible expense.

## SCENARIO 3

### A PERSON SPONSORING P10 000 TO AN APPROVED SPORTING BODY OR CLUB

Income	200 000
Expenses (including sponsorship)	150 000
Taxable profits	50 000
Tax @ 25%	12 500

The P10 000 sponsorship is considered to be a tax deductible expense



# Notes on Taxation of Camp Allowances

Camp allowances paid to sports persons to cover expenses related to income and are therefore chargeable/taxable income as prescribed by the Income Tax Act.

A sports person receiving an allowance whilst on camp or for participating in national games, are not be liable to pay income tax on the allowance. This is because such allowances are given to cover camp related expense. Match or performance bonuses are however deemed to be income and would be considered as taxable income.

However persons employed and paid by independent sporting clubs e.g. Gunners are deemed to receive income that is taxable. The sporting club paying the allowance must ensure that it verifies the taxable income of the sports person receiving the allowance and then retains the appropriate PAYE amount.





# Notes on Taxation of Income

The Income Tax Act [CAP. 52:01] Second Schedule Part II (Classes of Gross Income exempt) xl states that

'any income of association formed for the purpose of promoting social or sports amenities and not involving the acquisition of gain or the possibility of future gains to the extent that such income is applied exclusively for the purpose of such association within the tax year or such extended period as may be permitted by the commissioner;'

As such monies raised, donated and granted to sporting bodies are exempt from income tax.



## Notes on VAT and sporting bodies

Sporting bodies that are registered for VAT are required to account for any output VAT collected on income earned and any input VAT paid for expenses incurred. This is consistent with the VAT Act and the requirements of the same Act.

Monies granted to sporting bodies by the Government, via the BNSC executive are now exempt from VAT since the BNSC was given exemption status by the Commissioner General of BURS earlier in the year.

All other income, i.e. gate taking, sponsorships and donations received or raised is however assumed to include VAT and VAT returns should be filed as stipulated by the VAT division.

