Employer PAYE and employment income compliance under the Income Tax Act, 2026

Effective 1 July 2026, employers should review payroll, benefits, employee reimbursements and termination payments to ensure compliance with the Income Tax Act, 2026 and the employment income regulations issued by the Commissioner General of BURS.

The Act preserves Botswana's progressive individual tax brackets but introduces a new top bracket and a higher marginal tax rate of 27.5% on annual income exceeding P400,000. Employers should therefore ensure that PAYE is withheld from all taxable employment income, including taxable non-cash benefits, in the pay period in which the income is paid or the benefit is provided or made available.

In summary, the Act does not materially broaden employer obligations. Rather, it provides greater clarity on the characterisation, tax treatment and valuation of certain employee benefits, including share scheme benefits, allowances, reimbursements, expatriate remuneration and termination payments. The Act also stipulates that the terms 'employer' and 'employee' have the same meaning as that assigned in the Employment Act and the Public Service Act. Employers should therefore review payroll systems, benefit policies and supporting documentation to ensure taxable amounts are correctly identified, valued and reported for PAYE and BURS audit purposes.

Highlighted in this document, are key matters which businesses should immediately take note of and act upon, to remain compliant with the Income Tax Act, 2026.

PAYE tax rates for resident employees with effect 1 July 2026

Annual taxable income	Tax rates
P0 - P48,000	Nil
P48,001 - P84,000	5% of the excess over P48,000
P84,001 - P120,000	P1,800 + 12.5% of the excess over P84,000
P120,001 - P156,000	P6,300 + 18.75% of the excess over P120,000
P156,001 - P400,000 Previously uncapped	P13,050 + 25% of the excess over P156,000
P400,001 and above New bracket	P74,050 + 27.5% of the excess over P400,000

Separate BURS PAYE tables apply to non-resident employees. Employers should apply the PAYE table that corresponds to the employee's residence status and pay frequency, particularly where expatriate employees are treated as non-residents or temporary residents taxable only on Botswana-source income.

Example: A resident employee with annual taxable income of P500,000 will have PAYE calculated as P74,050 plus 27.5% of P100,000, being the excess over P400,000. The total annual PAYE is therefore P101,550.

Employers should confirm the applicable PAYE tables in force for the relevant tax year and ensure payroll systems apply the correct monthly, fortnightly or weekly equivalent thresholds.

Who is affected?

The rules apply to employers and employees broadly, including workers, office holders, and persons acting in any public or private appointment. Employment income may be taxable whether paid directly by the employer, by an associate of the employer, or by a third party under an arrangement with the employer.

Companies should review payroll records, HR policies and employee contracts to ensure that individuals who are classified as employees (as defined) are correctly identified, and the income correctly treated for PAYE purposes.

Key PAYE obligations for employers

Register for purposes of withholding
Register as an employer, if not registered already

Withhold and remit PAYE
Employers must withhold tax from payments of employment income made to employees, remit such tax to BURS and file the relevant returns on or before the 14th of the month following the payroll month.

Include non-cash benefits in payroll
Ensure that taxable non-cash benefits and allowances are included in the pay period in which the benefit or allowance is provided or made available.

Apply Botswana residence and source rules
Apply the Botswana residence and source rules correctly to ensure that employee's residence status and the source of income is correctly determined and applied.

Monitor temporary absences
Employers should ensure that employment income paid to a resident employee in respect of services rendered to the employer during temporary absence from Botswana is included in the computation of PAYE.

Employees required to self-withhold

Employees of international organisations, embassies, diplomatic missions, foreign governments or exempt entities should self-assess the need to register and comply with self-withholding obligations, where the employer does not withhold tax. **This is a significant change for such employees because, for the tax year ended 30 June 2026 and prior tax years, they could settle their tax annually on assessment rather than remitting PAYE monthly.**

Commence self-withholding from the month of July 2026 and remit the tax to BURS by the 14th of the month following the payroll month.

What should be included in employment income?

Employment income includes salaries, wages, leave pay, overtime, fees, stipends, commissions, bonuses, gratuities, pensions, annuities, taxable allowances, reimbursements not incurred solely on behalf of the employer, non-cash benefits, termination payments, withdrawals from approved retirement funds, retrospective salary adjustments and insurance or indemnity payments for loss of employment income.

Employee share scheme benefits

Employee share scheme benefits constitute taxable employment income, net of any employee's contribution for the shares, when shares are allotted, when restrictions on shares are lifted or when rights or options are disposed of, depending on the structure of the scheme and the timing rules in the Act. The value of a right or option to acquire shares is not taxable. **The repealed Income Tax Act did not contain specific rules governing the taxation of employee share scheme benefits. The Income Tax Act, 2026 now expressly provides when such benefits are taxable and how the taxable value should be determined.**

Retrospective salary adjustments and reinstatement payments

Retrospective salary adjustments and reinstatement payments may need to be apportioned over the relevant tax years, subject to the eight-year rule and any reasonable basis of apportionment determined by the Commissioner General where the period exceeds eight years. **These circumstances commonly occur where back pay is awarded following a promotion, salary correction, collective bargaining adjustment, delayed implementation of a pay increase, or reinstatement after an employment dispute.**

Amounts / benefits excluded from employment income

The following benefits granted to an employee are not taxable:

- Medical expenses reimbursed or discharged by the employer, including medical insurance premiums - as the Act does not expressly limit this exclusion to Botswana medical expenses or local medical insurance premiums, foreign medical expenses and foreign medical insurance premiums may arguably fall within the exclusion where properly supported;
- Qualifying passage for the employee, spouse and dependent children from the place of origin or recruitment to the place of employment at commencement and termination of employment;
- Approved service gratuity or severance pay directly invested in full into an approved retirement fund;
- Employer contributions to approved benefit funds, approved retirement funds or non-approved funds for the employee's benefit;
- Training stipends or allowances

Important: gratuity, severance pay and retrenchment amounts that do not qualify for full exclusion are subject to the special rule under which 50% is non-taxable and the taxable balance is taxed on the basis that gives the employee the lower tax liability, either in the year of receipt or over the lesser of the contract term and three years.

BURS valuation rules for non-cash benefits

BURS valuation / PAYE treatment	Example
Debt waiver	
The taxable value is the amount of the debt waived. The benefit is treated as provided when the debt is waived.	If an employer writes off an employee loan balance of P10,000, P10,000 is included in taxable employment income in that pay period.
Employer-leased housing	
The taxable value is the rent paid by the employer or associate. Previously, the benefit was determined as 10% of the rateable value or 8% of the capital valuation, as applicable." The benefit is included in the pay period in which the rent is paid.	If the employer pays monthly rent of P8,000 for an employee's residence, P8,000 is included as a taxable housing benefit for that month.
Employer-owned rateable housing	
The annual taxable value is 10% of the rateable or interim valuation, apportioned by pay period.	If the rateable value is P600,000 and the employee is paid monthly, the monthly taxable benefit is P600,000 × 10% ÷ 12 = P5,000, subject to any applicable limitation.
Employer-owned non-rateable or unvalued housing	
The annual taxable value is 8% of the capital valuation. Capital valuation is generally calculated using P2,500 per square metre of gross floor area, compared to the previous valuation basis of P250 of floor area, subject to BURS adjustment where appropriate.	If the residence is 120 square metres, the capital valuation is P300,000. The annual benefit is P300,000 × 8% = P24,000, or P2,000 per month for monthly payroll, subject to any applicable limitation.
School fees	
The taxable value is the higher of the amount paid, borne or reimbursed by the employer, or the market value of the benefit.	If the employer pays school fees of P24,000 for an employee's dependant, the taxable benefit is generally P24,000, unless the market value is higher.
Motor vehicle	
The previous progressive vehicle benefit calculation, which applied benefits of up to P10,000 on a maximum vehicle cost of P200,000 and 15% on the excess cost above P200,000, has been replaced by a flat 10% annual valuation basis. The value per pay period is calculated as cost to the employer of the motor vehicle or the lease commencement fair market value × 10%, divided by the number of pay periods.	If an employer provides a vehicle costing P360,000 for private use and the employee is paid monthly, the taxable monthly benefit is P360,000 × 10% ÷ 12 = P3,000.
Utilities	
Telephone, water, electricity, internet and similar costs paid, borne or reimbursed by the employer are taxable when paid, borne or reimbursed.	If the employer pays an employee's electricity and internet bills of P1,200 for a month, P1,200 is included in taxable employment income for that pay period.
Concessional or interest-free loans	
The taxable value is the difference between interest charged and interest that would have been payable at the market lending rate, being the Bank of Botswana Monetary Policy Rate on 1 July of the tax year.	If an employee receives an interest-free loan of P100,000 and the market lending rate is 5%, the annual interest benefit is P5,000, apportioned to the relevant pay periods.
Residual benefits	
The taxable value is generally the higher of the employer's cost, the amount reimbursed, or the market value of the benefit.	If the employer pays P6,000 for a benefit not specifically covered by the regulations and the market value is P7,000, P7,000 is included as the taxable residual benefit.

Taxation of expatriate employees

Employers should carefully determine the tax status of expatriate employees because the Botswana PAYE treatment depends on the employee's residence status, where the employment duties are exercised, who bears the remuneration, and whether any exemption applies.

Resident expatriates

An expatriate may become resident if they have a permanent home in Botswana or are physically present in Botswana for 183 days or more in any 12-month period commencing or ending during a tax year.

Temporary residents

An expatriate who is resident solely because of presence in Botswana for employment, for not more than three years, and who is not a Botswana citizen or permanent resident, is treated as a temporary resident. A temporary resident is taxable only on Botswana-source income.

Non-resident expatriates

A non-resident expatriate is taxable in Botswana only on Botswana-source income. Employment income is Botswana-source to the extent it relates to employment exercised in Botswana, irrespective of where the salary is paid.

PAYE obligation

Where the salary or benefits are paid or borne by a Botswana employer, or by an associate or third party under an arrangement with the employer, the employer should include the taxable salary and benefits in payroll and withhold PAYE.

Short-term exemption

Employment income of a non-resident individual may be exempt where the individual is in Botswana for not more than 90 days in aggregate in any 12-month period, the income is taxed in the individual's country of residence, and the remuneration is paid by a non-resident employer and is not borne by a permanent establishment in Botswana.

Treaty relief may override the domestic rules where applicable, and specific exemptions may apply to certain non-resident employees working in the international transport industry.

Example: If an expatriate employee is assigned to Botswana for six months and performs employment duties in Botswana, the salary attributable to the Botswana workdays is Botswana-source income and should be subject to Botswana PAYE except where exemption applies. The exemption applies if the short-term exemption exemptions are met.

Employer compliance checklist

- **Update payroll codes to capture all taxable allowances and non-cash benefits.**
- **Maintain supporting records for housing, vehicle, school fees, utilities, loans, debt waivers and residual benefits.**
- **Ensure taxable benefits are included in the correct pay period.**
- **Review employment contracts, expatriate packages, secondment arrangements and group benefit policies.**
- **Check whether reimbursements are genuine employer expenses or taxable employee benefits.**
- **Apply the correct rules for gratuity, severance and retrenchment payments.**
- **Confirm whether employees working across borders qualify for any exemption or whether Botswana-source employment income arises.**
- **Communicate changes to employees so that payslips and PAYE deductions are understood.**
- **Retain calculations and documentation in case of a BURS payroll audit.**

How we can help

To support you in this process, our tax team can provide practical guidance and implementation support, including:

- Assessing how the reforms may affect your tax position, costs, reporting obligations and compliance requirements.
- Advising on the tax implications of transactions, structures, projects and cross-border arrangements.
- Identifying tax risks and practical opportunities to improve readiness, efficiency and control.
- Reviewing systems, documentation, processes and controls for alignment with the new requirements.
- Supporting implementation through action plans, prioritised next steps and stakeholder briefing sessions.

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Over the coming weeks, we will publish a series of "GT Tax Bites" unpacking the Income Tax Act and its key amendments, with practical insights into what has changed, who may be affected, and the steps taxpayers should consider to remain compliant. Please contact our tax team to discuss how these reforms may affect your business and the practical steps you should consider.

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