Answers

Section B *Marks*

1 Girondas Properties (Pty) Ltd
Year ended 31 August 2015

(a) Disposal gain

		Original cost	Indexation	Tax cost	
		P	P	P	
Land	September 2001	400,000	716,749	1,116,749	1·5
Building	January 2002	850,000	1,493,288	2,343,288	1·5
Extensions	June 2006	550,000	465,967	1,015,967	1·5
		1,800,000	2,676,004	4,476,004	
Sales price				7,200,000	
Disposal gain				2,723,996	
Less: rollover relief				(1,250,000)	1·5
Net disposal gain				1,473,996	
					6

(b) Balancing charge

Balancing charge (limited to the allowances claimed) P286,250 2

(c) Capital allowance claim

Annual allowance: P1,250,000 x 2·5% P31,250 1

(d) Cost of new property for capital gains tax (CGT) purposes

Cost for CGT purposes (after rollover relief) P0 1

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Tutorial note: *The full cost of the new property has been rolled over and so the cost for CGT purposes is nil.*

2 Power Plastics (Pty) Ltd
Year ended 31 March 2016

(a) Trigger for liability to withhold tax

The liability to withhold tax on certain payments made to both residents and non-residents arises when a 'payment' is made. In this context a payment is a physical payment, therefore there is no liability to withhold tax when the expenses are accrued but not paid. 2

(b) Tax which should have been withheld if all the expenses were paid

	P	
Commission paid to salesmen	0	0·5
Interest paid to non-residents	11,804	0·5
Interest paid to residents	1,469	0·5
Marketing fees paid to residents	0	0·5
Rent paid to residents	3,000	0·5
Royalties paid to non-residents	63,968	0·5
	80,241	
		3

			Marks
(c) Taxable income			
	P	P	
Net profit per accounts		1,531,067	
Add: interest paid to non-residents	78,692		0·5
Add: royalties paid to non-residents	426,450	505,142	0·5
Less: interest paid to non-residents	78,692		0·5
Less: royalties paid to non-residents (28,410/0·15)	189,400		1
Less: dividends received	37,390	(305,482)	0·5
Taxable income		1,730,727	
			3

(d) Tax payable			
	P	P	
Tax at 15%		259,609	
Less: SAT paid	220,000		0·5
Less: withholding tax on dividends	0		0·5
Less: withholding tax on interest	1,893		0·5
Less: withholding tax on rents	7,804	(229,697)	0·5
Net tax payable		29,912	
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3 Monyere Beverages (Pty) Ltd
Value added tax (VAT) – year ended 30 April 2016

(a) Adjustments required

1 Exports of goods outside Botswana are zero rated. If goods are returned or a credit note is issued for whatever reason in respect of such exports, then the VAT input documentation must mirror the original output classification. The output was zero rated, so the input must also be zero rated and accordingly there should be no input credit claim for the returns of P62,017. 1·5

2 For VAT purposes, the profit on the sale of an asset is not the output amount but instead the actual proceeds received. Accordingly the output should be shown as P120,000. 1

3 The basic rule for claiming an input credit is when a tax invoice is received. It does not matter that the goods were not actually received until a later date. Therefore, the claim is valid and no adjustment is required. 1·5

4 Residential rent is an exempt supply and an input tax credit cannot be claimed for the P86,200. 1

5 Hotel bills are considered to be 'entertainment' which is a prohibited input. It does not matter that the expense is a genuine business expense. The P118,269 must be disallowed as an input credit. 1

6 By concession a tax invoice is not required where a discount on early settlement is claimed. Therefore, no adjustment is required. 1

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(b) Revised VAT computation			
	P	P	
Excess of outputs – original computation		942,625	
Add: sales returns in respect of exports	62,017		0·5
Add: sales proceeds on machine (120,000 – 44,933)	75,067		0·5
Add: tax invoice received for goods not received by the year end	0		0·5
Add: residential rent	86,200		0·5
Add: hotel bills	118,269		0·5
Add: discount	0	341,553	0·5
Excess of outputs: correct computation		1,284,178	
			3
			10

		Marks

4 Marshall Enterprises (Pty) Ltd

(a) Taxpayer's rights of objection and appeal

In the first instance, any taxpayer who is aggrieved with an assessment may object in writing to the Commissioner, within 60 days of the issue of the assessment, setting out the matter in dispute.	1·5
The Commissioner General must consider the objection and may allow it or disallow it and his decision must be communicated in writing to the taxpayer.	0·5
If the taxpayer is still aggrieved at the decision of the Commissioner General, the taxpayer may appeal the decision within 60 days to the Board of Adjudicators. The Board of Adjudicators is a specialised tax court which will hear the appeal and issue its judgement.	1
If the taxpayer is still aggrieved, further appeals may be made on a point of law, first to the High Court and thereafter to the Court of Appeal.	1
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(b) Time barred assessment

In normal circumstances, the Commissioner General can only amend an assessment within four years after the tax year to which it relates (s.83).	1
The four-year time period can be extended to eight years if a person has: (i) misrepresented or failed to disclose certain material facts; (ii) failed to furnish a tax return; or (iii) furnished an incorrect tax return.	1
In this case, the taxpayer fully disclosed all information relating to its expenditure, so the time limit will be four years. The revised assessments were made in February 2016, therefore the 2008 assessment is time barred and Marshall Enterprises can object and appeal on this basis.	1
	3

(c) Interest on self-assessment tax (SAT) underpayments

An interest charge arises where a company fails to make a minimum quarterly SAT payment of 20% of the final tax assessed (i.e. 80% in total).	0·5
Interest is payable at the rate of 1·5% a month or part of a month on any underpayment, from the date after the quarter date on which it was due (i.e. in Marshall Enterprises' case, 1 August, 1 November, 1 February and 1 May respectively) until the actual date of payment.	1·5
	2

(d) Late filing penalty

Marshall Enterprises' 2013 tax return should have been filed no later than 31 August 2013 but instead was only filed on 26 November 2013. Accordingly the return is 87 (30 + 31 + 26) days late.	
The late filing penalty at P100 per day is P8,700.	1
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Marks

5 Dikeledi Merchants (Pty) Ltd
Year ended 31 December 2015

(a) Capital allowances schedule

Working – balancing charge and rollover relief

	P	Marks
Cost of plant	276,500	0·5
Capital allowances claimed	(141,475)	0·5
	135,025	
Proceeds	170,000	
Balancing charge	34,975	0·5
Less: rolled over on cost of new plant	350,000	0·5
Tax cost of new plant	315,025	

	Plant P	Vehicles P	Total P	Marks
Cost at 31 December 2014	1,790,423	920,644	2,711,067	0·5
Addition (working)	315,025	0	315,025	0·5
Disposal	(276,500)	0	(276,500)	0·5
Cost at 31 December 2015	1,828,948	920,644	2,749,592	
Allowances at 31 December 2014	866,093	359,972	1,226,065	0·5
Current year claim	274,342	230,161	504,503	1
Disposal	(141,475)	0	(141,475)	0·5
Allowances at 31 December 2015	998,960	590,133	1,589,093	
Tax value at 31 December 2015	829,988	330,511	1,160,499	0·5
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(b) Taxable income

Working – capital gain on shares

	P	Marks
Cost	450,000	
Sale proceeds	725,000	
	275,000	0·5
Less: 25% moveable property allowance	(68,750)	0·5
Net capital gain	206,250	

	P	P	Marks
Net profit per accounts		1,317,826	
Add: contributions to provident fund	68,219		0·5
Add: depreciation	706,643		0·5
Add: stock obsolescence	0		0·5
Add: unrecovered VAT	0	774,862	1
Less: capital allowances (from (a))	504,503		0·5
Less: allowance for leasehold improvements (840,000/10)	84,000		1
Less: dividends received	103,229		0·5
Less: profit on sale of shares	150,000		0·5
Less: profit on sale of plant	65,900	(907,632)	0·5
Chargeable income		1,185,056	
Net capital gain (working)		206,250	0·5
Taxable income		1,391,306	
			7

Tutorial note: *Expenditure incurred on leasehold improvements is tax deductible over the period of the unexpired lease on a straight line basis.*

Marks

(c) **Stock obsolescence**

In terms of the First Schedule of the Income Tax Act, stock must be valued at the cost to the person carrying on the business. However, the value of the stock can be reduced by the amount that it has been diminished because of damage, deterioration, obsolescence or other cause. Therefore, a tax deduction for stock obsolescence is permitted. 2

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6 **Kabelo Monyake**

(a) **Tax year ending 30 June 2016**

(i) **Taxable income**

	P	P	
Salary (15,000 x 12)		180,000	0·5
Commission		478,622	0·5
Prize		28,000	0·5
Car allowance		120,000	0·5
Medical expenses		0	0·5
Unfair dismissal award		105,225	1
Bank interest		0	0·5
		911,847	
Less: interest on car loan	28,726		0·5
Less: other vehicle expenses	58,864		1
Less: capital allowances (25% x 280,000)	70,000		1
	157,590		
Less: 70% for business purposes		(110,313)	0·5
Less: medical expenses	0		0·5
Less: retirement annuity contributions	24,000	(24,000)	0·5
Taxable income		777,534	
			8

(ii) **Tax payable**

	P	P	
First P144,000		13,050	
Next P633,534 at 25%		158,384	
Total tax		171,434	1
Less: PAYE withheld: salary	126,872		0·5
court award	26,250	(153,122)	0·5
Tax payable		18,312	

The due date of payment is within 30 days of the issue of the assessment by BURS. 1

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(b) **Tax savings if the car is provided to Kabelo by his employer**

Current tax cost of the car (as in part (a))

	P	
Car allowance	120,000	0·5
Less: deductible expenses	(110,313)	0·5
	9,687	
Tax at 25% (marginal rate)	2,422	0·5

Alternative cost if the car is provided by his employer

Car benefit (10,000 + 15% (280,000 – 200,000)	22,000	1
Tax at 25% (marginal rate)	5,500	0·5

	Marks
Based on the current tax year's figures, Kabelo would be financially worse off if he accepted the offer, by P3,078 (5,500 – 2,422).	0·5
However, the deductible expenses are currently relatively high due to the capital allowances and this might not be the case in future years, depending on how frequently Kabelo replaces his car.	0·5
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