# Answers

**1 (a) Joyce Pabalinga**

**(i) Computation of the partnership chargeable income**

| | P | P |
|---|---|---|
| Net profit per the accounts | | 82,000 |
| *Add:* depreciation | 50,000 | |
| Susan's salary (Note 1) | 75,000 | |
| Joyce's interest (Note 2) | 10,000 | 135,000 |
| *Less:* capital allowances | | (32,000) |
| | | 185,000 |
| *Less:* partnership loss brought forward | | (50,000) |
| Partnership chargeable income | | 135,000 |
| Split as follows: | | |
| Susan 70% | | 94,500 |
| Joyce 30% | | 40,500 |
| | | 135,000 |

Notes:
1. A salary for a partner is not tax deductible and is a part of the share of profits.
2. Interest paid to a partner is not tax deductible and is a part of the share of profits.

**(ii) Calculation of taxable income**

| | | P |
|---|---|---|
| Salary | | 288,000 |
| Performance bonus | | 50,000 |
| Company car benefit | ((320,000 – 200,000) x 15% + 10,000) | 28,000 |
| Company provided housing benefit | (P476,000 x 10%) | 47,600 |
| Company provided furniture benefit | ((P25,000 – 15,000) x 10%) | 1,000 |
| Company contribution to pension fund | | 0 |
| Medical aid | | 0 |
| Partnership chargeable income | | 40,500 |
| Interest received | (P32,000 – 6,000) | 26,000 |
| Profit on sale of listed shares | | 0 |
| Taxable income | | 481,100 |

**(iii) Calculation of tax payable**

| | P | P |
|---|---|---|
| First P120,000 | | 10,875 |
| Next P361,100 at 25% | | 90,275 |
| | | 101,150 |
| *Less:* ITW8 tax credit | 85,600 | |
| interest tax credit | 2,000 | (87,600) |
| Net tax payable | | 13,550 |

**(b) David Kajane**

**(i) Chargeable income from farming**

| | P | P |
|---|---|---|
| Income | | |
| Sales | 1,232,017 | |
| Personal consumption (30 x P430) | 12,900 | |
| Settlement of debt (10 x P430) | 4,300 | |
| Closing stock (472 x P430) | 202,960 | 1,452,177 |
| Purchases | 865,083 | |
| Opening stock (438 x P430) | 188,340 | (1,053,423) |
| | | 398,754 |
| Expenditure | | |
| Salaries and wages (214,681 – 120,000) | 94,681 | |
| Fencing | 43,748 | |
| Vehicle expenses | 67,611 | |
| Cattle feed | 143,072 | |
| Construction of dam | 58,869 | |
| Construction of farm buildings | 70,000 | |
| Bank interest | 32,674 | (510,655) |
| Farming loss for the year | | (111,901) |

**(ii) Calculation of taxable income**

| | P |
|---|---|
| Commission | 140,750 |
| Share of partnership business income | 67,032 |
| | 207,782 |
| *Less:* farming loss – 50% of chargeable income (Note) | (103,891) |
| Taxable income | 103,891 |

Note
The offset of the farming loss is limited to 50% of chargeable income.

**(iii) Farming loss carried forward**

| | | P |
|---|---|---|
| Loss brought forward | | (178,446) |
| Current year loss | (111,901) | |
| *Less:* set-off | 103,891 | (8,010) |
| Farming loss carried forward | | (186,456) |

**2 Masedi Enterprises (Proprietary) Ltd**

**(a) Computation of capital allowances**

| | Buildings | Furniture | Machinery | Vehicles | Total |
|---|---|---|---|---|---|
| Cost | P | P | P | P | P |
| Brought forward | 3,750,000 | 83,672 | 262,500 | 210,985 | 4,307,157 |
| Additions | 685,000 | | 245,250 | 80,000 | 1,010,250 |
| Disposals | | | (262,500) | | (262,500) |
| | 4,435,000 | 83,672 | 245,250 | 290,985 | 5,054,907 |
| Allowances | | | | | |
| Brought forward | 1,148,437 | 28,976 | 207,250 | 148,924 | 1,533,587 |
| Current claim | 282,125 | 8,367 | 36,788 | 72,746 | 400,026 |
| Disposals | | | (207,250) | | (207,250) |
| | 1,430,562 | 37,343 | 36,788 | 221,670 | 1,726,363 |
| Tax value carried forward | 3,004,438 | 46,329 | 208,462 | 69,315 | 3,328,544 |

Notes:
1. The cost of the new machine is reduced by the balancing charge – see working 2.
2. There is no time apportionment in calculating capital allowances.
3. The building allowance includes a 25% initial allowance – see working 1.

Working 1 – Industrial building

| | P |
|---|---|
| Original cost | 3,750,000 |
| Additions | 685,000 |
| New cost | 4,435,000 |
| Initial allowance 25% x P685,000 | 171,250 |
| Annual allowance 2·5% x P4,435,000 | 110,875 |
| | 282,125 |

Working 2 – Rollover relief

| | P |
|---|---|
| Cost of old machine | 262,500 |
| Allowances | (207,250) |
| | 55,250 |
| Insurance proceeds | (150,000) |
| Rollover relief | (94,750) |
| Cost of new machine | 340,000 |
| Rollover relief | (94,750) |
| Net cost | 245,250 |

**(b) Computation of taxable income**

| | | P |
|---|---|---|
| Net profit per accounts | | 912,792 |
| *Add:* depreciation | 710,361 | |
| donations | 4,610 | |
| amortisation | 35,000 | 749,971 |
| *Less:* capital allowances (from part (a)) | 400,026 | |
| balancing charge (Note 1) | 0 | |
| fair value adjustment (Note 2) | 273,689 | |
| profit on disposal of machinery | 45,981 | |
| profit on disposal of investment | 84,026 | (803,722) |
| Chargeable income from manufacturing | | 859,041 |
| *Add:* chargeable income from disposal gain (working) | | 23,971 |
| Total chargeable income | | 883,012 |
| *Less:* assessed loss brought forward | | (279,201) |
| Taxable income | | 603,811 |

Working – Capital gain

| | P |
|---|---|
| Sale price of shares | 212,526 |
| Cost price | (128,500) |
| Gross gain | 84,026 |
| *Less:* 25% allowance (Note 3) | (21,007) |
| *Less:* capital loss brought forward (Note 4) | (39,048) |
| Chargeable income | 23,971 |

Notes:
1. The balancing charge has been rolled over against the cost of the new machine – see working 1 of part (a).
2. Fair value adjustments relate to accounting valuations of assets and have no relevance in tax computations.
3. There is a 25% inflationary allowance in calculating the capital gain arising on the sale of shares – sometimes referred to as moveable property allowance.
4. The capital loss brought forward is deducted after calculating the 25% allowance.

**(c) Calculation of tax payable**

| | | P |
|---|---|---|
| Basic tax at 5% | | 30,191 |
| Additional company tax at 10% | 60,381 | |
| *Less:* dividend withholding tax paid | (18,382) | 41,999 |
| Net tax payable | | 72,190 |

**(d) Withholding tax on payments to non-residents**

There is no withholding tax on the import of raw materials or any other kinds of goods.

There is, however, withholding tax on payment of administrative, managerial and technical fees paid to non-residents. In practice this will encompass virtually all types of payments for services rendered. In this case withholding tax is payable on the marketing and engineering fees. There is also withholding tax on payments of interest to non-residents.

The normal rate of withholding is 15% but this amount can be reduced by the respective double taxation treaties that Botswana enters into. For example, the rate of withholding tax payable in respect of payments to South Africa is 10%.The payment must be made by the 15th of the month following which the withholding tax was deducted.

## 3 Phuti (Proprietary) Ltd

**(a) Computation of chargeable disposal gains**

| | | | P |
|---|---|---|---|
| **1. Kolobeng Ltd** | | | |
| No taxable gain because the company is listed on the BSE and any gain is therefore exempt. | | | – |
| **2. Gaborone Securities (Proprietary) Ltd** | | P | |
| Total proceeds | | 250,000 | |
| *Less:* loan account (Note) | | (120,000) | |
| Sale proceeds of shares | | 130,000 | |
| *Less:* cost of shares | | (1,450) | 128,550 |
| **3. Tswana Diamonds (Proprietary) Ltd** | | P | |
| Sale proceeds | (1,400 x 500) | 700,000 | |
| *Less:* cost of shares | (1,000 x 500) | (500,000) | 200,000 |
| **4. Pennington Enterprises (Proprietary) Ltd** | | | |
| Sale proceeds of 700 shares | | 600,000 | |
| *Less:* cost of shares | (700/1,500 x 850,000) | (396,667) | 203,333 |
| **5. Tlokweng Foundries (Proprietary) Ltd** | | P | |
| Sale proceeds | (300 x 1,000) | 300,000 | |
| *Less:* cost of shares | | (80,000) | 220,000 |
| Gross disposal gains | | | 751,883 |
| *Less:* 25% moveable property allowance | | | (187,971) |
| Chargeable disposal gains (net) | | | 563,912 |

Note
The loan account is sold at par and only the balance of the proceeds is applied to the sale of shares.

**(b)** The chargeable disposal gains will be aggregated with Phuti (Proprietary) Ltd's chargeable income from business and charged to tax at the applicable standard and additional rates.

**(c) Relief available in the case of the merger (transaction 5)**

Holdover relief is available in situations where shares are disposed of in consequence of a merger or restructure of two or more resident companies. The relief provides for any gain arising on the 'paper profit' to be held over until such time as the shares received (in this case those in Jupiter Metals) are sold and the current disposal is deemed to be not at market value but at a value which is not greater than cost.

The conditions that need to be satisfied are:

– the beneficial ownership of the shares must remain unchanged;
– no one shareholder benefits at the expense of another; and
– the holdover relief is approved by the Commissioner General.

**4 (a) Conditions for input credit**

1. The claimant must be a taxable person;
2. The supply must be for business purposes or creating taxable supplies;
3. There must be a valid tax invoice;
4. The input must not be a prohibited input.

**(b) BG Retailers (Pty) Ltd**
**Input tax claimable**

| | P |
|---|---|
| Purchases of goods | 86,240 |
| Commercial rentals | 5,400 |
| Salaries and wages (Note 1) | 0 |
| Interest paid (Note 2) | 0 |
| Contribution to pension fund (Note 2) | 0 |
| Electricity | 7,930 |
| Purchase of computers | 12,700 |
| Purchase of company car (Note 3) | 0 |
| Imported services (Note 4) | 0 |
| Petrol and diesel costs (Note 5) | 0 |
| Sales returns | 1,050 |
| Advertising | 4,970 |
| Bank charges | 240 |
| Total input tax claimable | 118,530 |

Notes:
1. Not within the scope of VAT
2. Exempt supply
3. Prohibited input
4. There is no VAT on imported services provided the services are used to make taxable supplies.
5. Zero-rated supply

**5 Greenwood Enterprises (Proprietary) Ltd**

**(a) Calculation of dividend withholding tax payable**

| | | P |
|---|---|---|
| 1. | November 2007 dividend | 500,000 |
| | 15% withholding tax thereon | 75,000 |
| | *Less:* ACT brought forward | (107,226) |
| | ACT carried forward | (32,226) |

| | | P |
|---|---|---|
| 2. | April 2008 dividend | 750,000 |
| | 15% withholding tax payable | 112,500 |
| | *Less:* ACT brought forward | (32,226) |
| | Withholding tax payable | 80,274 |

**(b) Calculation of net tax payable**

| | P | P |
|---|---|---|
| Taxable income (2,438,675 + 581,266) | | 3,019,941 |
| Standard tax at 15% | | 452,991 |
| Additional company tax at 10% | 301,994 | |
| *Less:* withholding tax paid | (80,274) | 221,720 |
| | | 674,711 |
| *Less:* withholding tax on interest | | (27,823) |
| | | 646,888 |
| *Less:* SAT paid | | (560,000) |
| Net tax payable | | 86,888 |

**(c)** The latest date for filing the return is 31 August 2008.
The witholding tax on the April dividend is payable by 15 May 2008.

**(d)** Interest on SAT payments

| | P |
|---|---|
| Net tax payable | 646,888 |
| 80% thereof | 517,510 |
| Minimum quarterly SAT payments (P517,510/4) | 129,378 |

At the financial year end – i.e. 30 April 2008 – the tax that should have been paid to date is 80% of the final liability. This figure is then divided by four to determine what the minimum quarterly payment should be.

In this case the minimum is P129,378 but two payments of P120,000 were made, which is less than the minimum and so interest will be payable. No credit is given for overpayments.

| | | | | *Marks* |
|---|---|---|---|---|
| **1** | **(a)** | **Joyce Pabalinga** | | |
| | | **(i)** | Depreciation | 0·5 |
| | | | Susan's salary | 1 |
| | | | Joyce's interest | 1 |
| | | | Capital allowances | 0·5 |
| | | | Partnership loss brought forward | 1 |
| | | | Split of chargeable income | 2 |
| | | | | 6 |
| | | **(ii)** | Salary | 0·5 |
| | | | Performance bonus | 0·5 |
| | | | Company car benefit | 2 |
| | | | Housing benefit | 1 |
| | | | Furniture benefit | 1 |
| | | | Pension fund | 1 |
| | | | Medical aid | 0·5 |
| | | | Partnership income | 0·5 |
| | | | Interest | 1 |
| | | | Profit on sale of shares | 1 |
| | | | | 9 |
| | | **(iii)** | Gross tax payable | 1 |
| | | | ITW8 credit | 0·5 |
| | | | Interest credit | 0·5 |
| | | | | 2 |
| | **(b)** | **David Kajane** | | |
| | | **(i)** | Personal consumption | 1 |
| | | | Settlement of debt | 1 |
| | | | Closing stock | 0·5 |
| | | | Opening stock | 0·5 |
| | | | Salaries and wages | 0·5 |
| | | | Fencing | 1 |
| | | | Vehicle expenses | 0·5 |
| | | | Cattle feed | 0·5 |
| | | | Construction of dam | 1 |
| | | | Construction of farm buildings | 1 |
| | | | Bank interest | 0·5 |
| | | | | 8 |
| | | **(ii)** | Commission | 0·5 |
| | | | Business income | 0·5 |
| | | | 50% farming loss | 2 |
| | | | | 3 |
| | | **(iii)** | Loss brought forward | 0·5 |
| | | | Current year loss less amount set off | 1 |
| | | | Loss carried forward | 0·5 |
| | | | | 2 |
| | | | | **30** |

| | | Marks |
|---|---|---|
| **2** | **Masedi Enterprises (Proprietary) Limited** | |
| **(a)** | Addition building | 0·5 |
| | Addition vehicle | 0·5 |
| | Addition machinery | 2 |
| | Disposal machinery | 1 |
| | Current claim: industrial building | 1·5 |
| | other assets | 1·5 |
| | Tax values carried forward | 2 |
| | | 9 |
| **(b)** | Depreciation | 0·5 |
| | Donations | 0·5 |
| | Amortisation | 1 |
| | Capital allowances | 0·5 |
| | Fair value adjustment | 1 |
| | Profit on disposal of machinery | 0·5 |
| | Profit on disposal of investment | 1 |
| | Disposal gain | 3 |
| | Loss brought forward | 1 |
| | | 9 |
| **(c)** | Basic tax | 1 |
| | Additional company tax | 1 |
| | Dividend withholding tax paid | 1 |
| | | 3 |
| **(d)** | No withholding tax on goods | 1 |
| | Withholding tax on marketing fees | 0·5 |
| | Witholding tax on engineering fees | 0·5 |
| | Withholding tax on interest | 0·5 |
| | Normal rate of withholding | 0·5 |
| | Payable by 15th of following month | 1 |
| | | 4 |
| | | **25** |

| | | |
|---|---|---|
| **3** | **Phuti (Proprietary) Ltd** | |
| **(a)** | Kolobeng | 1 |
| | Gaborone Securities | 2 |
| | Tswana Diamonds | 1 |
| | Pennington Enterprises | 2 |
| | Tlokweng Foundries | 2 |
| | Moveable property allowance | 1 |
| | | 9 |
| **(b)** | Basis of taxation | 1 |
| **(c)** | Holdover relief | 0·5 |
| | Merger or reconstruction of two or more resident companies | 1 |
| | Gain on paper profit held over | 1 |
| | Disposal not at market value, but not greater than cost | 1 |
| | Beneficial ownership remains unchanged | 0·5 |
| | No one shareholder benefits | 0·5 |
| | Approval required | 0·5 |
| | | 5 |
| | | **15** |

| | | | *Marks* |
|---|---|---|---|
| **4** | **(a)** | Taxable person | 1 |
| | | Supply for business purposes | 1 |
| | | Valid VAT invoice | 1 |
| | | Not prohibited | 1 |
| | | | 4 |
| | **(b)** | **BG Retailers (Pty) Ltd** | |
| | | Purchases of goods | 0·5 |
| | | Commercial rentals | 0·5 |
| | | Salaries and wages | 1 |
| | | Interest paid | 1 |
| | | Contribution to pension fund | 1 |
| | | Electricity | 0·5 |
| | | Purchase of computers | 1 |
| | | Purchase of company car | 1 |
| | | Imported services | 1 |
| | | Petrol and diesel costs | 1 |
| | | Sales returns | 1 |
| | | Advertising | 0·5 |
| | | Bank charges | 1 |
| | | | 11 |
| | | | **15** |

| | | | |
|---|---|---|---|
| **5** | **Greenwood Enterprises (Proprietary) Ltd** | | |
| | **(a)** | November dividend – withholding tax | 0·5 |
| | | – ACT brought forward | 1 |
| | | – ACT carried forward | 0·5 |
| | | April dividend – withholding tax | 0·5 |
| | | – ACT brought forward | 1 |
| | | Witholding tax payable | 0·5 |
| | | | 4 |
| | **(b)** | Taxable income | 1 |
| | | Standard tax | 0·5 |
| | | Additional company tax | 0·5 |
| | | Withholding tax credit | 1 |
| | | Withholding tax on interest | 1 |
| | | SAT paid | 1 |
| | | | 5 |
| | **(c)** | Tax return | 1 |
| | | Withholding tax on dividend | 1 |
| | | | 2 |
| | **(d)** | Calculation of minimum payment | 2 |
| | | Interest payable due to two payments below minimum | 1·5 |
| | | No credit for overpayments | 0·5 |
| | | | 4 |
| | | | **15** |