Answers

Marks

1 Norman Thupe

(a) Income from employment

	P	Marks
Salary	280,000	0·5
Bonus	20,000	0·5
Medical aid	0	0·5
Car benefit (10,000 + 15% x 30,000)	14,500	0·5
Income from employment	314,500	
		2

(b) Chargeable income of Thamaga shop

Working 1.
Cost of vehicles

	P	Marks
Cost brought forward	145,000	0·5
Addition – second-hand bakkie	150,000	0·5
	295,000	

Working 2.
Capital allowances

	P	Marks
Furniture 10% x 76,294	7,629	0·5
Plant 15% x 97,264	14,590	0·5
Vehicles 25% x 150,000	37,500	0·5
Vehicles limited to	21,500	1
	81,219	

	P	P	Marks
Net loss per accounts		(33,348)	
Add: VAT interest	8,792		1
donation	10,000		0·5
school fees	15,800		1
purchase of investment on Stock Exchange	12,500		1
purchase of second-hand bakkie	150,000		1
drawings	120,000	317,092	1
Less: capital allowances	81,219		
loan from brother	36,000		1
stock adjustment	31,397		1
condemned stock	52,831	(201,447)	2
Chargeable income		82,297	
			13

			Marks

(c) Taxable income from all sources

	P	P	
Income from employment		314,500	0·5
Chargeable income from Thamaga shop		82,297	0·5
Dividends received		0	1
Interest received (28,957 – 6,000)		22,957	1
Partnership income	63,062	0	1
loss brought forward	(93,828)		1
loss carried forward	(30,766)		1
Less: pension contribution		(14,000)	1
Taxable income		405,754	
			7

Note

1. A partnership loss is ring-fenced and the loss carried forward can only be set-off against future partnership income.
2. Dividends are not included in taxable income.

(d) Tax payable

	P	P	
First P120,000		10,875	
Next P285,754 at 25%		71,439	
		82,314	0·5
Less: PAYE	55,268		0·5
Less: withholding tax on dividends	0		0·5
Less: withholding tax on interest	2,896	(58,164)	0·5
Tax payable		24,150	
			2

(e) Tax return submission

Norman's tax return should be submitted by the 30 September 2009.	1
	25

				Marks

2 Direct Retailers

(a) Computation of taxable income

			P	
Working – calculation of balancing allowance				
Cost price			250,000	
Less: capital allowances			(160,000)	0·5
			90,000	
Sale price			(80,000)	0·5
Balancing allowance	(Note 1)		10,000	

			P	P	
Net profit per accounts				1,209,256	
Add:	depreciation		422,613		0·5
	rent per IAS 17	(Note 2)	364,837		1
	provision for future expenses	(Note 3)	87,784		1
	insurance payout to be received	(Note 5)	450,000	1,325,234	1·5
Less:	capital allowances		236,814		0·5
	profit on sale of asset		60,000		0·5
	balancing allowance	(Note 1)	10,000		0·5
	fair value adjustment	(Note 4)	300,000		1·5
	tax refund	(Note 6)	37,593		1·5
	rentals paid	(Note 2)	240,000		1
	deposit included in sales	(Note 7)	150,000	(1,034,407)	2
				1,500,083	
Less:	assessed loss brought forward			(168,437)	0·5
Taxable income				1,331,646	
					13

Notes

1. A balancing allowance arises on the sale of the capital asset.
2. IAS 17 *Leases* introduces the concept of rental smoothing but for tax purposes rental that has been incurred can be claimed as a deduction.
3. Provisions for future expenses are not deductible.
4. IFRS adjustments have no bearing on the tax computation.
5. The insurance recovery has accrued as at the year end and should be included in income.
6. A tax refund is not income.
7. The deposit does not accrue as income until the goods have been delivered and therefore does not get included in income.

(b) Calculation of dividend withholding tax payable

	P	
First dividend	500,000	
15% withholding tax thereon	75,000	0·5
Less: ACT brought forward	(87,664)	0·5
ACT carried forward	(12,664)	1
Second dividend	1,000,000	
15% withholding tax thereon	150,000	0·5
Less: ACT brought forward	(12,664)	0·5
Withholding tax payable	137,336	1
		4

(c) Self-assessed tax (SAT) amounts and dates

		P	P	Marks
(i)	Tax payable			
	15% ordinary tax (P1,331,646 x 15%)		199,747	0·5
	10% ACT	133,165		0·5
	Less: withholding tax paid	(137,336)	0	1
	Net tax payable		199,747	
(ii)	Minimum SAT			
	31 December 2008		60,000	0·5
	31 March 2009	Note	19,900	2
	30 June 2009		39,949	0·5
	30 September 2009		39,949	0·5
	31 January 2010		39,949	0·5
			199,747	
				6

Note

The first SAT instalment has been overpaid and this can then go towards the minimum payment of the next instalment.

(d) Tax returns

(i)	latest date for filing is 31 October 2009	1
(ii)	the late filing penalty is P100 per day	1
		2

(e) Value added tax (VAT) and exports

(i)	exports are zero-rated;	0·5
(ii)	all costs relating to the goods can be claimed as inputs;	0·5
(iii)	goods must be consigned to an export country which means any country other than Botswana;	1
(iv)	goods must be consigned by the company to the recipient at an address in an export country – i.e. the company must have physical control over the goods at the time of export.	2
(v)	the company must retain documents evidencing export out of the country – i.e. customs documents.	1
		5
		30

Marks

3 Abel Transport (Proprietary) Ltd

(a) Calculation of balancing charge and allowance

Working 1 – trade in of one truck

		P	
Cost price		160,000	
Capital allowances		(96,200)	
		63,800	
Sale proceeds		(40,000)	
Balancing allowance	(Note 2)	23,800	0·5

Working 2 – sale of four trucks

		P	
Cost price		720,600	
Capital allowances		(496,750)	
		223,850	
Sale proceeds		(500,000)	
Balancing charge	(Note 1)	(276,150)	0·5

Working 3 – insurance proceeds plant

	P	
Cost price	85,000	
Capital allowances	(62,800)	
	22,200	
Sale proceeds	(20,000)	
Balancing allowance	2,200	0·5

Working 4 – furniture written off

	P	
Cost price	19,065	
Capital allowances	(15,372)	
	3,693	
Sale proceeds	0	
Balancing allowance	3,693	0·5
		2

Notes

1. Rollover relief can be claimed in respect of the balancing charge provided the proceeds are applied to the replacement of the assets that have been sold.
2. A balancing allowance can be claimed separately – i.e. it does not have to be deducted from the balancing charge.

Marks

(b) Calculation of capital allowances and written down value carried forward

Cost	Buildings	Furniture	Plant	Vehicles	
	P	P	P	P	
At 1 July 2008	2,000,000	72,891	260,427	1,309,672	
Additions	250,000	28,950	126,750	745,000	2
Rollover relief (Note)	0	0	0	(276,150)	1
Disposal trade in	0	0	0	(160,000)	0·5
Disposal sale	0	0	0	(720,600)	0·5
Disposal insurance	0	0	(85,000)	0	0·5
Disposal write-off	0	(19,065)	0	0	0·5
At 30 June 2009	2,250,000	82,776	302,177	897,922	
Allowances					
At 1 July 2008	125,000	36,792	104,829	628,015	
Current year charge	56,250	8,278	45,327	224,481	2
Disposal trade in	0	0	0	(96,200)	0·5
Disposal sale	0	0	0	(496,750)	0·5
Disposal insurance	0	0	(62,800)	0	0·5
Disposal write-off	0	(15,372)	0	0	0·5
At 30 June 2009	181,250	29,698	87,356	259,546	
Written down value 30 June 2009	2,068,750	53,078	214,821	638,376	

Note

The balancing charge can be claimed as rollover relief which is then applied to reduce the cost of the replacement assets.

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(c) Calculation of taxable income

			P	Marks
Net profit per accounts			1,826,958	
Add:	depreciation	325,094		0·5
	balancing charge (Note)	0	325,094	1
Less:	capital allowances (56,250 + 8,278 + 45,327 + 224,481)	334,336		0·5
	profit on disposal of assets	78,516		1
	balancing allowances (23,800 + 2,200 + 3,693)	29,693	(442,545)	1
Taxable income			1,709,507	

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Note

The balancing charge is rolled-over – it does not come into charge as it has been applied to reduce the cost of the replacement assets.

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		Marks
4	**Sewane Manufacturers (Pty) Limited**	

(a) Commentary on value added tax (VAT) status

		Marks
(i)	Inputs can only be claimed within four months of the date of the invoice. The VAT return is for the period ended 31 August 2009 which could also include July 2009 and so the latest invoice that can be claimed in this tax period is March 2009. Anything prior to that date is out of time and will be disallowed.	1·5
(ii)	Exports should be reported as this is required in the VAT return. However, they are zero-rated and so their omission does not have any VAT effect.	0·5
(iii)	A credit note issued by the company should be an input adjustment and not an output adjustment. It should increase inputs rather than increasing outputs.	2
(iv)	Although a saloon car is a denied input, the repairs, insurance etc relating to that car are valid inputs.	1
(v)	The liability to report an output is triggered by the earlier of raising an invoice or the receipt of cash. The receipt should therefore be included in outputs.	1·5
(vi)	Entertainment is a prohibited input and that includes any recreational expenses. The gym equipment is therefore a denied input.	1·5
(vii)	Residential rent is an exempt supply and should be reported as such but it does not attract VAT.	1
(viii)	All hotel bills, whether incurred for business purposes or not, fall within the denied input of entertainment.	1
		10

(b) Restatement of VAT return

	P	P	
Excess of outputs originally reported		227,356	
Add: inputs disallowed (out of date purchase invoices)	172,902		0·5
advance receipt	130,000		1
denied input claim: gym equipment	28,450		1
denied input claim: hotel bills	2,736	334,088	0·5
Less: credit note included in outputs	48,972		0·5
credit note should be in inputs	48,972		1
residential rents	7,500	(105,444)	0·5
Restated excess of outputs over inputs		456,000	
			5
			15

Marks

5 Johnson Masego

(a) Disposal gain

Working 1

				P	P	
(i)	Crossroads Transport (Pty) Ltd					
	Sale price			165,000		0·5
	Cost	(35,000/2,000 x 500)		(8,750)	156,250	0·5
(ii)	Phoza Industries (Pty) Ltd					
	Sale price			2,000		0·5
	Cost			(10,000)	(8,000)	0·5
(iii)	FH Wholesalers (Pty) Ltd					
	Sale price	(400,000 – 30,000)	(Note 1)	370,000		1
	Cost	(80,000 + 40,000)		(120,000)	250,000	1
	Boxer Stores Ltd		(Note 2)		0	1
	Gross disposal gain				398,250	
	Less: 25% moveable property allowance				(99,562)	1
	Net disposal gain from shares				298,688	

Notes

1. The sale of shares in FH Wholesalers is *cum div* and so the dividend must be excluded in order to establish the sale price of the shares.
2. The gain on the sale of shares in Boxer Stores Ltd is exempt from tax as the shares are listed on the Botswana Stock exchange.

Working 2

The sale of Johnson's principal private residence is exempt from tax. 1

The sale of the house in which his parents live is liable to capital gains tax:

	P	P	
Cost – August 2005	180,000		
Indexation – February 2009 (1,143·30 – 834·8)/834·8	66,519	246,519	0·5
Improvements – January 2006	150,000		0·5
Indexation – February 2009 (1,143·30 – 877·4)/877·4	45,458	195,458	0·5
Tax cost		441,977	
Sales price		460,000	0·5
Net disposal gain from immoveable property		18,023	
Total net disposal gains		316,711	
			9

(b) Taxable income

	P	
Employment income	350,000	0·5
Commission	23,000	0·5
Dividend income	0	0·5
Total net disposal gains	316,711	0·5
Taxable income	689,711	
		2

			Marks
(c) Tax payable			
	P	P	
Normal tax:			
First P120,000	10,875		
Next P253,000 at 25%	63,250	74,125	0·5
Capital gains:			
First P100,000	10,000		
Next P216,711 at 25%	54,178	64,178	1·0
Less: tax withheld		(68,375)	0·5
Net tax payable		69,928	
			2

(d) No taxable event is created by Johnson allowing his parents to live rent free in his house. Some might argue that this constitutes tax avoidance in that rental income should have been charged. However, if there is no income then there cannot be any tax avoidance and it is entirely up to the owner as to whether he wishes to derive income or not from his asset but he cannot be penalised if he does not derive any income. 2

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