
Answers

	Marks
1 Andrew Donaldson	
(a) Residence status	
Andrew is a non-resident of Botswana for tax purposes as his permanent home is in Europe and his visits to Botswana account for less than 183 days in a tax year.	1
Accordingly, the non-resident rates of tax are applied to Andrew's income arising from a Botswana source.	1
As Andrew is a non-resident, he is not subject to Botswana tax on any of his income arising from a non-Botswana source.	1
In addition, where withholding tax is deducted from any interest income, royalty income or management and consultancy fees received then this is a final charge to tax. (s.32(2))	1
	<u>4</u>
(b) Chargeable income from rents	
Rents received	P 523,560
Less: council rates	35,962
Less: insurance	28,739
Less: repairs and maintenance	108,275
Less: bad debts	18,580
Less: garden maintenance	26,790
Less: capital allowances ($15\% \times 180,000$)	27,000
Less: fines for littering	Note 0
	<u>(245,346)</u>
Chargeable income from rents	<u>278,214</u>
	<u>6</u>
Tutorial note: Fines are generally considered not to be incurred in the production of income and are therefore not deductible.	
(c) Taxable income	
Working 1 – gain on disposal of shares in Elliot Trading	
Proceeds	P 800,000
Less: cost of shares	(135,000)
Less: legal fees on disposal	(20,000)
	<u>645,000</u>
Less: 25% moveable property allowance	(161,250)
Net disposal gain	<u>483,750</u>
Chargeable income from rents (part (a))	P 278,214
Director's fees from Donaldson Holdings	390,532
Dividends from BSE listed companies	0
Interest from Donaldson Holdings	0
Interest from Barclays Bank	0
Total chargeable income	668,746
Net disposal gain (working 1)	483,750
Taxable income	<u>1,152,496</u>
	<u>8</u>
Tutorial note: Where withholding tax is deducted from interest payments to a non-resident, this is a final charge to tax and the interest income is not included within gross income. All withholding tax deducted from dividend payments are a final charge to tax.	

(d) Tax payable

	P	P	
Taxable income (part (c))		<u>1,152,496</u>	
On income:			
Tax – first 144,000	14,850		
Tax – next 524,746 at 25%	<u>131,187</u>	146,037	1
On disposal gains			
Tax – first 144,000	13,950		
Tax – next 339,750 at 25%	<u>84,938</u>	98,888	1
		244,925	
<i>Less:</i> withholding tax on rents	26,178		0·5
<i>Less:</i> withholding tax on directors fees	76,483		0·5
<i>Less:</i> withholding tax on dividends	0		0·5
<i>Less:</i> withholding tax on interest	0	(102,661)	0·5
Net tax payable		<u>142,264</u>	
			<u>4</u>

(e) VAT registration

Andrew earns residential rental income in excess of P500,000. In normal circumstances a person is required to register for VAT if his/her taxable supplies exceed P500,000 per annum.	1
However, residential rents are exempt supplies rather than taxable supplies. Therefore, Andrew is not required to register for VAT.	1
	1
	<u>3</u>
	<u>25</u>

2 Modikane Manufacturing (Pty) Ltd

(a) (i) Taxable income

	P	
Working:		
Sales proceeds	130,664	0·5
Tax value of assets	<u>(56,297)</u>	0·5
Balancing charge	<u>74,367</u>	

	Note	P	P
Net profit per accounts			2,403,738
<i>Add:</i> administrative expenses		0	0·5
<i>Add:</i> bad debt on loan to affiliate		120,000	0·5
<i>Add:</i> depreciation		672,835	0·5
<i>Add:</i> impairment of investment		450,000	0·5
<i>Add:</i> interest paid to a non-resident		165,809	0·5
<i>Add:</i> interest paid to resident bank		0	0·5
<i>Add:</i> interest paid to resident individual		0	0·5
<i>Add:</i> provision for bonus	1	240,927	0·5
<i>Add:</i> penalties for late delivery	2	0	0·5
<i>Add:</i> provision for loss on contract		250,000	0·5
<i>Add:</i> balancing charge (working)		74,367	0·5
<i>Add:</i> rent of factory		0	0·5
<i>Add:</i> royalties paid to residents		0	0·5
		<u>1,973,938</u>	
<i>Less:</i> capital allowances		862,087	0·5
<i>Less:</i> profit on sale of fixed assets		83,380	0·5
<i>Less:</i> fair value adjustment		1,200,000	0·5
<i>Less:</i> interest paid to a non-resident (20,000/15%)		133,333	1
		<u>(2,278,800)</u>	
Taxable income		<u>2,098,876</u>	

Notes:	Marks
1. A general provision for bonuses, as opposed to a specific provision, is not a deductible expense.	1
2. Penalties for late delivery are contractual penalties and are therefore considered to be in the normal production of income and deductible for tax purposes.	1
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Tutorial note: The total expense relating to interest paid to a non-resident is added back and the deduction is determined by reference to the withholding tax actually paid in the tax year.

(ii) Dividend calculation

	P	
Tax payable – 22% x 2,098,876	<u>461,753</u>	1
Net profit	2,403,738	
Less: tax	<u>(461,753)</u>	
	1,941,985	0·5
Eligible for dividend at 45%	<u>873,893</u>	0·5
Withholding tax thereon at 7·5%	<u>65,542</u>	1
	<u>3</u>	

(iii) Net VAT payable

	P	
Outputs		
Sales – local	32,602,739	0·5
Sales – export	0	1
Proceeds on sale of fixed assets	130,664	1
Fair value adjustment	0	0·5
	<u>32,733,403</u>	
Inputs		
Purchases	20,763,826	0·5
Administrative expenses	4,102,884	0·5
Bad debt on loan to affiliate	0	0·5
Depreciation	0	0·5
Impairment of investment	0	0·5
Interest paid	0	0·5
Penalties for late delivery	106,382	1
Provision for loss on contract	0	0·5
Rent of factory buildings	560,216	0·5
Royalties paid to residents	869,352	0·5
Salaries and wages	0	0·5
	<u>26,402,660</u>	
Net outputs	<u>6,330,743</u>	0·5
VAT at 12%	<u>759,689</u>	0·5
	<u>10</u>	

(b) Time of supply for VAT purposes

The golden rule is that VAT must be accounted for on the earlier of the invoice date and the date cash is received.

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(c) Departmental Guidance Notes (DGNs)

The complexity of tax law means that it can, at times, be difficult for the lay person to interpret it with certainty. However, businesses and investors require some degree of certainty regarding the tax consequences of their transactions. In order to address these issues, the Revenue Authority issue Departmental Guidance Notes (DGNs) to indicate to taxpayers how the various sections of the legislation will be interpreted and how the taxpayer can expect to be treated. This publication of the Revenue Authority's interpretation of the legislation gives an investor some degree of certainty when making decisions.

However, a DGN does not have any legal force and is merely a guideline. The Revenue Authority is not bound by its own guidelines and equally an aggrieved taxpayer may still exercise his/her rights of objection and appeal.

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3 Evolution Systems

(a) Disposal gain

	P	P	
(i) Plot 29733 Gaborone			
Original cost – April 2003	425,000	0·5	
Indexation to June 2013 ($425,000 \times 1573·8 - 701·4 / 701·4$)	<u>528,614</u>	1	
Indexed cost	953,614		
Sales proceeds	<u>3 000,000</u>	2,046,386	0·5
<i>Less: rollover relief applied on purchase of Plot 45277 Gaborone</i>		(1,750,000)	1
(ii) Computer Sales (Pty) Ltd			
Sales consideration	675,000	0·5	
Cost price	<u>(100,000)</u>	0·5	
	575,000		
<i>Less: 25% moveable property allowance</i>	<u>(143,750)</u>	431,250	1
(iii) Computer spares business – sale of goodwill			
Cost of goodwill	450,000	0·5	
	<u>(225,000)</u>	0·5	
	225,000		
<i>Less: 25% moveable property allowance</i>	<u>(56,250)</u>	168,750	1
Net disposal gain		<u>896,386</u>	
			<u>7</u>

Tutorial note: The sale of goodwill is considered to be the same as a sale of shares and the 25% moveable property allowance can be claimed.

(b) Cost of Plot 45277 for CGT purposes

	P	
Cost of new property	1,750,000	
<i>Less: amount rolled over on sale of Plot 29733</i>	<u>(1,750,000)</u>	
Cost of property for CGT purposes	<u>0</u>	
		<u>2</u>

	Marks
(c) Value added tax (VAT) for the period ended 31 March 2014	15

	P	
Outputs		
Sale of Plot 29733 Gaborone	3,000,000	0·5
Sale of shares in Computer Sales (Pty) Ltd	0	0·5
Sale of inventory of computer spares business	350,000	1
Sale of goodwill of computer spares business	0	0·5
	<u>3,350,000</u>	
Inputs		
Purchase of Plot 45277 Gaborone	1,750,000	0·5
Purchase of shares in Barclays Bank	0	0·5
Construction of Plot 4978 Gaborone (2,850,000 – 230,000)	2,620,000	0·5
Purchase of fixed assets of cabling business	250,000	0·5
Purchase of inventory of cabling business	100,000	0·5
Purchase of accounts receivable/payable of cabling business	0	0·5
Purchase of goodwill of cabling business	0	0·5
	<u>4,270,000</u>	
Net inputs	<u>1,370,000</u>	
VAT refundable at 12%	<u>(164,400)</u>	
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Tutorial note: Contract penalties which result in a reduction of the contract price are considered to be a post-sale adjustment.

- 4 (a) A direct tax is one which is paid to the Government by the same person (whether individual or corporate) on whom it is imposed. A direct tax is usually based on the ability to pay principle. 1·5
An example of a direct tax is income tax, which is calculated based on a taxpayer's taxable income. 0·5
Tutorial note: Other examples of direct taxes include real property tax and company tax.
An indirect tax, on the other hand, is imposed on a transaction rather than a person and is therefore sometimes referred to as a 'consumption tax'. A person has the freedom to engage in or refrain from taking part in the transaction in order to avoid the tax consequences. 1·5
An example of an indirect tax is value added tax (VAT). 0·5
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- (b) Tax avoidance is where a person lawfully organises their affairs in such a manner so as to minimise their tax liability. An example of tax avoidance would be a taxpayer in business claiming the capital allowances to which they are entitled. 1·5
Tax evasion, on the other hand, is where a person uses illegal means to intentionally avoid paying their true liability. An example of tax evasion would be a taxpayer failing to declare taxable income in their tax return in order to (illegally) lower their liability. 1·5
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Tutorial note: Another example of tax evasion would be a taxpayer overstating deductible expenses.
- (c) The main purpose of tax in the modern economy is to fund government expenditure on the costs of the civil service, police and army and building and maintaining public roads, bridges, schools and hospitals, etc. Taxes can also perform other social functions such as wealth redistribution. 2
(d) The primary source of revenue law in Botswana is the Income Tax Act and the VAT Act. Thereafter the courts are influenced by case law and precedent. 2
Tutorial note: BURS publishes how it will interpret the Act through guidance notes.
- (e) The penalty for late filing of company income tax returns is P100 per day. 1
(f) The interest rate applied to late payments of income tax is 1·5% per month (or part thereof). 1

	Marks
(g) VAT returns must be submitted to BURS by the 25th day of the month following the end of the relevant VAT period.	1
(h) Any person who carries on a business in Botswana is required to keep their books, records and other tax documents for a period of eight years following the end of the accounting period to which such books relate.	1
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Tutorial note: This requirement does not relate to an individual who only earns employment income.

5 Pentagon Paints (Pty) Ltd

(a) Tax on current remuneration package

	Michael P	Brenda P	Refilwe P	
Gross salary	750,000	685,000	635,500	
Less: pension – 5%	(37,500)	(34,250)	(31,775)	1
Taxable income	<u>712,500</u>	<u>650,750</u>	<u>603,725</u>	
Tax thereon	<u>155,175</u>	<u>139,738</u>	<u>127,981</u>	1
				<u>2</u>

Tutorial note: The employer's contribution to the pension fund is not included as a benefit.

(b) Adjustment to cash salary

(i) Current package

	Michael P	Brenda P	Refilwe P	Total P	
Gross salary	750,000	685,000	635,500	2,070,500	
Pension – 10%	75,000	68,500	63,550	207,050	0.5
	<u>825,000</u>	<u>753,500</u>	<u>699,050</u>	<u>2,277,550</u>	

(ii) Proposed package

	Michael P	Brenda P	Refilwe P	Total P	
Car (25% of cost)	75,000	62,500	0	137,500	0.5
House (rental cost)	0	60,000	0	60,000	0.5
School fees	50,000	0	55,000	105,000	0.5
Medical aid	0	35,000	30,000	65,000	0.5
Car allowance	0	0	60,000	60,000	0.5
Housing allowance	0	0	80,000	80,000	0.5
	<u>125,000</u>	<u>157,500</u>	<u>225,000</u>	<u>507,500</u>	
Revised salary	636,364	541,818	430,955	1,609,136	1
Pension – 10%	63,636	54,182	43,095	160,914	1
	<u>825,000</u>	<u>753,500</u>	<u>699,050</u>	<u>2,277,550</u>	
Adjustment to cash salary	113,636	143,182	204,545		0.5
					<u>6</u>

(c) Tax savings for the employees as a result of the proposed packages

	P	P	P	
Gross cash salary (from (b))	636,364	541,818	430,955	
Car	25,000	17,500	0	1
School fees	50,000	0	55,000	1
Medical aid – exempt	0	0	0	0·5
House (10% of rateable value)	0	47,500	0	0·5
Car allowance	0	0	60,000	0·5
House allowance	0	0	80,000	0·5
Employer pension contributions	0	0	0	0·5
	711,364	606,818	625,955	
Less: pension – 5%	(31,818)	(27,091)	(21,548)	1
Taxable income	679,545	579,727	604,407	
Tax thereon	146,936	121,982	128,152	0·5
Tax savings (compared with (a))	8,239	17,756	(171)	1
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				15