

Fundamentals Level – Skills Module

Taxation (Botswana)

Tuesday 3 June 2014



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–5.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

The Botswana Institute of Chartered Accountants



Paper F6 (BWA)

SUPPLEMENTARY INSTRUCTIONS:

1. Calculations and workings need only be made to the nearest P.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following rates of tax and allowances are to be used when answering the questions.

Rates of tax
2012/2013 and 2013/2014 tax years

Resident companies	On taxable income
Standard rate	22%
Manufacturing company rate	15%

Resident individuals

P0 – P36,000	P0 + 0%
P36,001 – P72,000	P0 + 5%
P72,001 – P108,000	P1,800 + 12.5%
P108,001 – P144,000	P6,300 + 18.75%
P144,001 +	P13,050 + 25%

Non-resident individuals, trusts and estates

P0 – P72,000	P0 + 5%
P72,001 – P108,000	P3,600 + 12.5%
P108,001 – P144,000	P8,100 + 18.75%
P144,001 +	P14,850 + 25%

Capital gains – individuals

P0 – P18,000	P0 + 0%
P18,001 – P72,000	P0 + 5%
P72,001 – P108,000	P2,700 + 12.5%
P108,001 – P144,000	P7,200 + 18.75%
P144,001 +	P13,950 + 25%

Capital gains – companies

Net aggregate gains are taxable at the company rates of tax.

Value added tax (VAT) rate	12%
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Basis of valuation of benefits**Individual's vehicle benefit**

Vehicle cost	Employee's benefit	Fuel cost adjustment
P1 – P50,000	P2,500	P1,000
P50,001 – P100,000	P5,000	P2,000
P100,001 – P150,000	P7,500	P3,000
P150,001 – P200,000	P10,000	P4,000

Benefit on the excess of P200,000 will be 15% thereof with a maximum fuel benefit of P5,000.

Where the cost of fuel is paid for by the employee the fuel cost adjustment is deducted from the benefit, but where the cost is borne by the employer the full benefit is taxable.

Medical contributions

The employer's contributions to a medical benefit fund on behalf of his employee up to an amount equal to 100% of the required contributions shall not become taxable in the hands of the employee.

Individual's housing benefit

If rated:

10% of the property's rateable value prorated by occupation and reduced by any charge borne by the employee.

If not rated:

The lower of (a) or (b) prorated by occupation and reduced by any charge borne by the employee:

(a) Gross floor area x P250 per sq metre x 8%

(b) 25% of taxable employment income before housing benefit

Individual's furniture benefit

10% of furniture cost in excess of P15,000 by usage.

Capital allowances

The annual allowance on plant and machinery is between 10% and 25% of the cost incurred. The following are the rates fixed by the Commissioner General of Taxes as fair and reasonable having regard to the expected lives of the assets listed.

Capital allowances

Furniture and fittings	10%
Office equipment and machinery	15%
Plant and machinery including farming	15%
Motor vehicles, boats and aircraft	25%
Heavy plant and machinery	25%
Computer hardware	25%

Industrial and commercial buildings

Industrial building – initial allowance	25%
Industrial building – annual allowance	2.5%
Commercial building – annual allowance	2.5%

Withholding tax rates

	Residents	Non-residents
Interest	10%	15%
Dividends	7.5%	7.5%
Entertainment fee	–	10%
Management and consultancy fees	–	15%
Commercial royalty	–	15%
Rent	5%	5%
Commission or brokerage	10%	10%
Construction contracts	3%	3%

Capital gains tax

Indexation allowance

Paragraph 8 of the Tenth Schedule to the Income Tax Act 1995.

Table of factors from the National Cost of Living Indices.

	1982	1983	1984	1985	1986	1987	1988
January		104.1	113.5	119.9	133.9	147.4	157.8
February		104.8	113.5	120.7	135.5	148.5	158.7
March		105.5	115.2	122.0	135.5	148.9	160.8
April		106.6	116.0	124.1	136.8	151.9	163.4
May		108.3	116.9	126.6	138.0	153.6	164.0
June		108.4	118.3	128.6	140.9	154.1	165.5
July	100.0	109.0	119.1	130.1	141.2	154.9	168.0
August	101.2	110.2	120.1	129.8	141.8	156.6	169.3
September	101.2	110.2	119.8	131.1	142.7	156.7	171.0
October	102.1	110.7	120.7	131.5	143.4	157.1	172.6
November	103.3	111.7	119.7	131.8	144.7	157.5	173.9
December	103.8	112.3	119.5	132.0	146.3	158.1	174.4
	1989	1990	1991	1992	1993	1994	1995
January	176.9	196.6	220.5	248.5	291.0	324.2	357.9
February	178.0	199.0	221.4	250.4	293.1	326.8	361.0
March	180.1	200.5	223.5	256.6	295.8	328.3	364.1
April	182.7	204.1	225.8	262.1	301.1	332.7	368.6
May	184.1	205.1	227.3	265.5	303.3	337.3	370.5
June	186.2	206.0	229.0	269.4	306.0	340.3	374.9
July	187.3	207.2	232.0	273.3	308.7	343.2	377.8
August	188.7	209.2	234.2	275.0	311.4	345.3	381.6
September	190.2	210.7	237.2	277.6	315.0	347.0	384.3
October	191.1	212.6	239.5	280.1	317.6	348.4	386.0
November	191.5	216.0	242.4	283.0	320.1	351.4	387.9
December	194.2	217.6	245.1	285.4	321.5	353.1	391.3
	1996	1997	1998	1999	2000	2001	2002
January	395.5	431.6	464.8	495.1	530.8	581.4	613.1
February	398.1	435.5	466.0	499.7	536.8	582.1	613.9
March	402.2	439.7	469.9	504.3	538.8	587.2	622.1
April	405.6	443.6	476.0	507.5	545.5	589.9	629.6
May	408.8	448.7	477.9	509.2	548.9	596.9	631.3
June	413.9	451.2	478.9	513.3	552.0	598.6	634.0
July	417.0	454.2	481.0	514.3	568.6	601.3	654.0
August	419.1	455.1	484.0	517.7	569.8	603.0	662.4
September	421.6	457.6	484.4	521.1	571.4	605.4	666.7
October	423.8	459.7	486.9	523.5	576.0	608.5	670.7
November	426.0	460.9	489.5	524.0	577.5	610.2	677.6
December	428.7	461.9	491.2	525.2	578.7	611.0	679.3

	2003	2004	2005	2006	2007	2008	2009
January	683·2	721·3	779·2	877·4	942·9	1022·2	1152·7
February	689·0	728·6	781·7	884·0	948·5	1034·4	1151·1
March	692·2	735·8	783·8	891·5	949·5	1043·1	1165·0
April	701·4	743·6	789·4	901·4	957·7	1064·7	1172·8
May	705·8	754·0	801·4	909·6	968·1	1085·0	1176·0
June	715·0	721·3	813·2	915·0	974·5	1115·1	1193·4
July	714·5	758·9	821·2	918·6	988·5	1136·7	1204·8
August	698·0	761·3	834·8	924·2	991·2	1140·6	1209·7
September	707·0	765·7	842·3	930·8	994·1	1133·8	1213·0
October	715·9	770·7	857·1	936·4	1004·3	1135·5	1213·3
November	717·9	772·4	859·7	935·4	1007·2	1159·0	1217·2
December	718·9	774·9	863·1	936·4	1012·8	1151·2	1218·4

	2010	2011	2012	2013
January	1223·2	1320·0	1436·1	1544·3
February	1225·4	1330·2	1440·0	1546·9
March	1234·6	1338·9	1446·5	1555·4
April	1256·2	1359·0	1460·4	1565·6
May	1268·6	1373·6	1480·0	1570·2
June	1285·3	1386·4	1487·3	1573·8
July	1289·7	1380·6	1492·1	
August	1290·6	1403·4	1496·7	
September	1297·9	1409·0	1508·9	
October	1300·6	1415·0	1515·4	
November	1304·2	1424·0	1530·2	
December	1309·1	1428·8	1534·8	

ALL FIVE questions are compulsory and MUST be attempted

- 1 Gibson Siele owned two businesses, one called Setswana Prints and the other called Screen Master. In March 2013 he sold Screen Master but continued to own and run Setswana Prints.

The combined results of the two businesses for the year ended 30 June 2013 are as follows:

Income	P
Sales	14,820,755
Cost of sales	(10,973,952)
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	3,846,803
Sales proceeds of Screen Master	2,950,000
Medical aid refunds	28,639
Sales proceeds of shares in KTS Pumps (Pty) Ltd	762,350
Refund of loan made to KTS Pumps (Pty) Ltd	500,000
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	8,087,792
Expenses	
Donation to a political party	65,000
Bad debt – loan to a friend of Gibson Siele	70,000
Motor vehicle expenses	168,094
Purchase of shares in Sefalana Holdings Ltd	215,650
Purchase of truck	492,500
Rent	285,268
Salary for Gibson Siele	360,000
Utilities	196,276
Wages	1,782,053
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	3,634,841
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Net profit	4,452,951

Additional information:

1. The sale price of Screen Master was determined as follows:

	P
Debtors less creditors	300,000
Stock	1,200,000
Net book value of fixed assets (plant)	650,000
Goodwill	800,000
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	2,950,000

Gibson had paid P200,000 for goodwill when he purchased Screen Master.

2. The tax value of the combined fixed assets at 30 June 2012 was:

	Plant	Vehicles	Total
	P	P	P
Cost	1,528,630	1,766,204	3,294,834
Capital allowances	(375,802)	(606,588)	(982,390)
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	1,152,828	1,159,616	2,312,444

The plant which formed part of the sale of Screen Master had a cost of P895,000 and capital allowances at 30 June 2012 of P392,500.

3. The shares in KTS Pumps (Pty) Ltd were purchased in May 2008 at a cost of P875,000.

4. Gibson is allocated one of the vehicles owned by Setswana Prints, which he uses for his own personal use. The car had cost P320,000.
5. Gibson had the following additional income (not recorded above) in the year to 30 June 2013:

	Income P	Tax withheld P
Interest from banks	38,230	3,823
Dividends	16,800	1,260
Commission on sale of insurance products	22,170	2,217
	<u>77,200</u>	<u>7,300</u>

6. Gibson has a capital loss brought forward as at 1 July 2012 of P172,806.

Required:

In respect of Gibson Siele for the year ended 30 June 2013:

- (a) Calculate his chargeable income/loss from the two businesses. (10 marks)
- (b) Calculate his net disposal gain. (6 marks)
- (c) Calculate his taxable income from all sources.
Note: Indicate any items of income which are not taxable by the use of a zero. (4 marks)
- (d) (i) State the circumstances in which the sale of Screen Master will be zero rated for the purposes of value added tax (VAT). (3 marks)
- (ii) Calculate the VAT payable on the sale if it does NOT qualify to be zero rated. (2 marks)

(25 marks)

- 2 The following are the results of Savuti Foundries (Pty) Ltd for the year ended 30 September 2013.

Income	P
Sales	21,930,286
Profit on the sale of equipment	234,115
Fair value adjustment	1,250,000
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	23,414,401
Expenses	
Administrative expenses	1,692,246
Depreciation	892,052
Amortisation of patent	189,735
Commission paid to salesmen	428,904
Consultancy fees paid to residents	208,362
General provision for bad debts	273,891
Interest paid to non-residents	728,398
Interest paid to residents	378,210
Provision for future environmental costs	350,000
Purchases	11,093,271
Royalties paid to non-residents	1,093,285
Salaries and wages	4,083,816
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	21,412,170
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Net profit	2,002,231

Additional information:

1. The profit on the sale of equipment was calculated as follows:

	P
Cost	1,725,810
Fair value adjustment	1,400,000
Accumulated depreciation	(1,384,925)
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	1,740,885
Sales proceeds	1,975,000
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Profit on disposal	234,115

The capital allowances on the equipment sold claimed as at 30 September 2012 amounted to P1,206,284.

2. New equipment purchased to replace that which was sold cost P1,267,250.
3. The capital allowances for the year to 30 September 2013 on the company's assets other than the new equipment (as in (2)) amount to P624,892.
4. The following amounts of withholding tax were deducted and paid over by the company during the current tax year:

	P
Consultancy fees paid to residents	0
Commission paid to salesmen	21,445
Interest paid to residents	37,821
Interest paid to non-residents	86,430
Royalties paid to non-residents	28,000

5. The movement on the environmental cost provision was:

	P
Opening balance at 1 October 2012	1,082,563
Increase in provision	350,000
Actual costs incurred	(172,863)
Closing balance at 30 September 2013	<u>1,259,700</u>

6. The company made a payment of P150,000 in respect of its first and only SAT payment.

Required:

(a) In respect of Savuti Foundries (Pty) Ltd for the year ended 30 September 2013:

- (i) Calculate the balancing charge or allowance on the sale of the equipment, claiming any relief which is available. (4 marks)
 - (ii) Calculate the company's taxable income. (13 marks)
 - (iii) Calculate the minimum SAT which should have been paid, and list the due dates and amounts payable taking into account the one payment which was made. (4 marks)
- (b) During the year Savuti Foundries (Pty) Ltd was subjected to a tax audit. The audit resulted in revised tax assessments dating back six years, which the company disputes.

Required:

- (i) Explain the remedies available to Savuti Foundries (Pty) Ltd in respect of the disputed revised assessments, clearly identifying the applicable time limits. (4 marks)
- (ii) State the time limits for reopening assessments, together with the circumstances in which they each apply. (5 marks)

(30 marks)

- 3 Valentine Pheko works for Moraka Wholesalers. He has recently been approached by Kalahari Distributors to go and work for them. Valentine wants advice on whether the employment package which Kalahari Distributors is offering is better than his current package.

	P
Current package from Moraka Wholesalers:	
Annual salary	520,000
Anticipated bonus	50,000
Medical aid – company contribution	15,000
Pension – company contribution	52,000
Proposed package by Kalahari Distributors:	
Annual salary	420,000
Medical aid – company contribution	15,000
School fees	25,000
Company house of 200 square metres	
Company car costing P150,000	

Valentine currently has the following annual outgoings:

1. House rentals	48,000
2. School fees	25,000
3. Costs of running his own car	18,000
4. Personal pension contribution to Moraka Wholesalers' pension fund	26,000

Required:

Prepare calculations of Valentine Pheko's tax payable and net cash flow from each employment package and advise him as to whether he should accept Kalahari Distributors' offer.

Note: In your calculations of taxable income indicate any items which are not taxable by the use of a zero.

(15 marks)

4 The following types of expenditure are commonly incurred by businesses:

- (1) Commission paid to a company's salesmen.
- (2) Bad debt in relation to a loan made to a member of staff.
- (3) Legal expenses in respect of a dispute over territorial rights.
- (4) The cost of advertisements for an unsuccessful marketing campaign.
- (5) The cost of acquisition of a business contract.
- (6) A payment made in advance for the following year's premises rental.
- (7) A contribution to a foreign pension fund.
- (8) Value added tax (VAT) paid for which no input credit is given.
- (9) Architect's fees for the designing of a new building.
- (10) Interest paid on a loan to purchase shares as an investment.
- (11) Expenditure incurred under a warranty agreement.

Required:

In relation to each of the items of expenditure, state, giving reasons, whether it is or is not deductible from assessable income for tax purposes.

(15 marks)

5 The following are the results of Sentlhana Holdings Ltd for the year ended 31 March 2014:

Income	P
Sales	11,269,035
Cost of sales	(9,561,927)
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	1,707,108
Profit on the sale of immoveable property	812,500
Interest received	62,198
Dividends received	37,825
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	2,619,631
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Expenses	
Allowable expenses	1,465,536
Depreciation	47,850
Fair value adjustment	175,000
Loss on the sale of shares	140,000
Management fees paid to a non-resident	86,500
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	1,914,886
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Net profit for the year	704,745
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Additional information:

1. The profit on the sale of the immoveable property was made up as follows:

	P
Original cost – August 2006	850,000
Fair value adjustment	200,000
Less: depreciation	(112,500)
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	937,500
Sale proceeds – May 2013	1,750,000
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Profit on sale	812,500
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2. The loss on the sale of the shares was made up as follows:

	P	P
Original cost – April 2010		700,000
Fair value adjustment		(150,000)
		<hr/>
		550,000
Sale proceeds – June 2013	430,000	
Less: sale costs	(20,000)	410,000
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Loss on sale		(140,000)
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3. The company paid the withholding tax deducted from the management fees to the revenue authority on 10 April 2014.

Required:

In respect of Sentlhana Holdings Ltd for the year ended 31 March 2014:

- (a) Calculate the company's net disposal gain.** (4 marks)
- (b) Calculate the company's taxable income.** (4 marks)
- (c) Calculate the value added tax (VAT) payable or refundable assuming the results above represent one single tax period.**

Note: List all of the items referred to in the question indicating any amounts which do not have any VAT consequences by the use of a zero. (7 marks)

(15 marks)

End of Question Paper