

Fundamentals Level – Skills Module

Taxation (Botswana)

Monday 1 December 2008

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 2–4.

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 Accountants

ACCA



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 – 2007/2008 tax year

Resident companies	On taxable income
Standard rate	15%
Additional company tax	10%
Manufacturing company rate	5%
Additional company tax	10%

Resident individuals

P0 – P30,000	P0 + 0%
P30,001 – P60,000	P0 + 5%
P60,001 – P90,000	P1,500 + 12.5%
P90,001 – P120,000	P5,250 + 18.75%
P120,001 +	P10,875 + 25%

Non-resident individuals

P0 – P60,000	P0 + 5%
P60,001 – P90,000	P3,000 + 12.5%
P90,001 – P120,000	P6,750 + 18.75%
P120,001 +	P12,375 + 25%

Capital gains – individuals

P0 – P12,500	P0 + 0%
P12,501 – P43,750	P0 + 5%
P43,751 – P62,500	P1,562 + 10%
P62,501 – P81,250	P3,437 + 15%
P81,251 – P100,000	P6,250 + 20%
P100,001 +	P10,000 + 25%

Capital gains – companies

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

Basis of valuation of benefits

Individuals' 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 are not taxable in the hands of the employee.

Individuals' 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 the taxable employment income before housing benefit.

Individuals' furniture benefit

10% of the furniture cost in excess of P15,000 prorated 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%

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		
January	683.2	721.3	779.2	877.4	942.9		
February	689.0	728.6	781.7	884.0	948.5		
March	692.2	735.8	783.8	891.5	949.5		
April	701.4	743.6	789.4	901.4	957.7		
May	705.8	754.0	801.4	909.6	968.1		
June	715.0	721.3	813.2	915.0	974.5		
July	714.5	758.9	821.2	918.6	988.5		
August	698.0	761.3	834.8	924.2	991.2		
September	707.0	765.7	842.3	930.8	994.1		
October	715.9	770.7	857.1	936.4	1004.3		
November	717.9	772.4	859.7	935.5	1007.2		
December	718.9	774.9	863.1	936.4	1012.8		

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Question 1 begins on page 6.**

ALL FIVE questions are compulsory and MUST be attempted

- 1 Michael Morupeng is a retired civil servant and now a cattle farmer. He provides you with the following information concerning his farming operations for the year ended 30 June 2008:

	P
Sales	2,126,324
Purchases	1,465,221
Wages	361,894
Bush clearing	78,552
Dam construction	107,216
Fencing	68,475
Depreciation	56,541
Purchase of truck	85,000
Administration expenses	149,213
Drawings by Michael Morupeng	200,000

Additional information relating to Michael's farming operations:

1. The opening stock was 1,182 head of cattle and the closing stock was 1,426 head. The standard value of cattle is P430 per head.
2. The tax values of the farming assets at 30 June 2007 were:

	Equipment P	Vehicles P
Cost	128,476	206,450
Accumulated allowances	(113,046)	(79,250)
	<u>15,430</u>	<u>127,200</u>

3. A tractor that had cost P30,000, and which had accumulated allowances of P7,500 at 30 June 2007, was sold for P15,750.
4. Michael's farming loss brought forward from the prior year was P28,633.

Information relating to Michael's non-farming income for the year ended 30 June 2008:

- (i) Michael owns a house which he lets out. The rent received for the year ended 30 June 2008 was P54,000 and the expenditure in relation to the house in the year amounted to:

	P
Repairs and maintenance	3,269
City Council rates	855
Interest on mortgage loan	16,117

- (ii) Michael received net dividends of P38,427 from his investments on the Botswana Stock Exchange.
- (iii) Michael received a gross Government pension of P193,422, from which tax of P29,682 had been deducted.
- (iv) Michael received bank interest of P59,210, from which P5,321 withholding tax had been deducted.

Required:

In respect of Michael Morupeng for the tax year ended 30 June 2008:

- (a) Calculate the capital allowances claimable in respect of the farming operations, showing the tax values to be carried forward at 30 June 2008. (4 marks)**
- (b) Calculate the balancing charge or allowance on the sale of the tractor. (2 marks)**
- (c) Calculate Michael's chargeable income or loss from farming. (10 marks)**
- (d) Calculate Michael's taxable income. (5 marks)**
- (e) Calculate the tax payable or refundable to Michael. (2 marks)**
- (f) Determine the farming loss to be carried forward. (2 marks)**

(25 marks)

- 2 The following is the income statement of Warala Industries (Proprietary) Ltd for the year ended 30 April 2008:

	P	P
Sales in Botswana		10,367,821
Sales exported from Botswana		4,883,964
Interest received		126,981
Profit on sale of shares		600,000
		<hr/>
		15,978,766
Local purchases	3,378,745	
Imported purchases	6,255,072	
Depreciation	382,452	
Interest paid	45,872	
Salaries and wages	3,218,679	
Administrative overheads	805,117	(14,085,937)
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Net profit before tax		1,892,829

Additional information:

1. The tax cost of the fixed assets at 1 May 2007 was P3,207,216.
2. During the year additional plant and machinery costing P480,000 (exclusive of value added tax (VAT)) was purchased.
3. The annual allowance rate applicable to all the company's assets is 15% per annum.
4. The profit on the sale of shares was calculated as follows:

	P
Proceeds on sale of shares in Optica Systems Ltd	750,000
Cost of shares in Optica Systems Ltd	(270,000)
Proceeds on sale of shares in Empress Enterprises (Pty) Ltd	380,000
Cost of shares in Empress Enterprises (Pty) Ltd	(200,000)
Fair value adjustment	(60,000)
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Profit on sale of shares	600,000

The shares of Optica Systems Ltd are listed on the Botswana Stock Exchange.

5. The company has a capital loss brought forward of P42,186 arising from the sale of immoveable property in the prior year.
6. During the year the company paid a dividend of P1,000,000 and paid the requisite withholding tax. There was no ACT brought forward.
7. The company had paid a total of P240,000 in self assessment tax (SAT) instalments as at 30 April 2008.
8. The company made an overall net VAT refund claim of P76,542 in respect of its transactions for the year ended 30 April 2008.

Required:

In respect of Warala Industries (Proprietary) Ltd for the year ended 30 April 2008:

- (a) Calculate the company's taxable income.** (10 marks)
- (b) Calculate the tax payable by or refundable to the company.** (6 marks)
- (c) Determine the minimum amount of tax that should have been paid on each SAT instalment during the year and state the due dates of payment of each instalment.** (4 marks)
- (d) Calculate the value added tax (VAT) payable or refundable in respect of the year based on the company's actual transactions and compare this to the amount of the VAT refund claim actually made.** (8 marks)
- (e) Assuming the company is required to file VAT returns on a monthly basis, state by when the returns should be submitted, including the exception to the general rule.** (2 marks)

(30 marks)

- 3 Grainger Industries (Pty) Ltd resolved to sell its paint division to Baralong Paints (Pty) Ltd on 31 December 2007 for a sum of P3,900,000 which is made up as follows:

	P
Land and buildings (including P500,000 for the land)	2,400,000
Stock at book value	400,000
Plant and equipment at book value	200,000
Accounts receivable at book value	500,000
Accounts payable at book value	(300,000)
Goodwill	700,000
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	3,900,000

Additional information:

1. The land and buildings had been purchased in October 2001 for the sum of P800,000, being P200,000 for the land and P600,000 for the buildings. Improvements of P450,000 were made to the buildings in June 2003.

2. The tax value of the buildings on 31 December 2007 was:

	P
Cost of buildings	1,050,000
Capital allowances	(160,000)
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	890,000

3. The tax value of the plant and equipment on 31 December 2007 was:

	P
Cost of plant and equipment	550,000
Capital allowances	(300,000)
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	250,000

Required:

- (a) Calculate the net disposal gain or loss arising on the sale of the paint division by Grainger Industries (Pty) Ltd. (7 marks)
- (b) Calculate the amounts, other than the disposal gain or loss (as calculated in (a) above) that must be included in Grainger Industries (Pty) Ltd's chargeable income as a result of the sale of the paint division. (3 marks)
- (c) Explain the value added tax (VAT) implications of the transfer of the business, identifying any relief that may be available and the conditions that must be met for it to be applied. (5 marks)

(15 marks)

- 4 Adam Moleon is a salesman with Western Textiles (Pty) Ltd and his current remuneration is based on a basic salary plus commission received in respect of sales made. His current job requires Adam to travel substantially. He has been approached by the management of the company to consider accepting a different job, which will be more office bound and which will have a different remuneration package. Adam has requested you to advise him if the new proposal will result in greater or lesser take-home remuneration taking into account the difference in make-up of the two packages.

Current annual remuneration package

	P
Basic salary	60,000
Commission	280,000
Company car – cost P320,000	
Company paid medical aid	18,000

The commission is the highest he has ever earned and he thinks it is unlikely that he will earn much more than this in the foreseeable future.

Proposed annual remuneration package

	P
Basic salary	240,000
Thirteenth cheque	30,000
Company house – see note 1	
Company furniture – cost P40,000	
Company paid medical aid	22,000
School fees for children	38,000
Car allowance	60,000

Notes:

1. Adam currently rents a house for P8,000 per month. Under the proposed arrangement, he will be provided with a company house of 240 square metres, rent free. The house is not rated.
2. Adam currently pays the school fees for his children himself.
3. Adam will use the car allowance to lease a car for P6,000 per month.

Required:

- (a) Calculate the tax payable by Adam Moleon in respect of his current remuneration package for the year ended 30 June 2008. (3 marks)
- (b) Calculate the tax that would have been payable by Adam Moleon in respect of the proposed remuneration package for the year ended 30 June 2008. (5 marks)
- (c) Advise Adam Moleon whether he will be better or worse off if he changes jobs and accepts the proposed remuneration package. (7 marks)

(15 marks)

5 Davis and Molefe Construction (Pty) Ltd is a construction company, which operates its own fleet of vehicles. When carrying out a tax accrual review of the company you encounter the following expenditure amounts in the accounts for the year ended 30 June 2008:

1. Damages paid to a pedestrian who was injured by one of the company's vehicles, P17,000.
2. Provision for future expenditure, P250,000.
3. Bad debt in respect of a staff loan, P23,000.
4. School fees paid to senior employees in terms of their employment contracts, P57,000.
5. Penalties on late completion of a contract, P192,000.
6. Exchange loss on the repayment of a US Dollar capital loan, P261,000.
7. Legal fees in respect of a dispute over the purchase of a plot of land used to store equipment, P39,000.
8. VAT paid that could not be claimed as an input deduction in the company's VAT return, P46,000.
9. Transfer duty on the purchase of immovable property, P51,000.
10. Payment made to a landlord for agreeing to the early termination of a lease, P25,000.

Required:

In respect of each of the above amounts, state giving reasons, whether or not the expenditure is deductible for tax purposes.

(15 marks)

End of Question Paper