
Answers

Note: ACCA does not require candidates to supply statutory references as part of their answers. Where such statutory references are given below they are for tutorial purposes only.

				Marks
1	Moses Gaetsiwe			
(a)	Disposal gains			
(1)	Plot 3682 Mogoditshane			
		Cost P	Tax cost P	
	Cost of land	100,000		1
	Indexation 100,000 x (1530·2 – 968·1/968·1)	58,062		
	Cost of building	320,000		1
	Indexation 320,000 x (1530·2 – 1304·2/1304·2)	55,452	533,514	
	Add: legal fees		10,628	1
	Total cost		544,142	
	Sale proceeds		785,000	
(2)	BSE listed shares			
	Cost of shares		82,000	
	Sale proceeds		126,835	
			44,835	1
	25% moveable property allowance		(11,209)	1
	Net disposal gain		274,484	
				<u>5</u>

Tutorial note: The normal exemption from capital gains tax (CGT) on the sale of shares listed on the BSE only applies if the shares have been held for at least a year.

(b) Chargeable income from rents

Working:

		P	
Cost of commercial properties		42,969,638	0·5
Less: sold Plot 3628 Mogoditshane		(320,000)	1
Add: capital improvements		2,380,361	1
Cost as at 30 June 2013		45,029,999	
Capital allowance claim at 2·5%		1,125,750	1
	P	P	
Gross income:			
Rents net of withholding tax	3,674,429		0·5
Withholding tax	193,391	3,867,820	1
Recoupment of capital allowances claimed Plot 3628		16,000	1·5
Security deposits		0	0·5
Insurance receipt		52,500	1
		3,936,320	
Allowable deductions:			
Collection commission		(86,297)	0·5
Council rates		(297,013)	0·5
Mortgage interest		(580,271)	0·5
Repairs and maintenance		(299,671)	0·5
Capital allowances (working)		(1,125,750)	W
Chargeable income from rents		1,547,318	
			<u>10</u>

			Marks
(c) Taxable income for the year ended 30 June 2013			
	P		
Net disposal gains (from part (a))	274,484		0·5
Chargeable income from rents (from part (b))	1,547,318		0·5
Partnership income (60% x 286,430)	171,858		1
Taxable income	<u>1,993,660</u>		
Not included: Interest (see (e))			0·5
Dividend			0·5
			<u>3</u>
(d) Tax payable for the year ended 30 June 2013			
	P	P	
Net disposal gains		274,484	
Income (1,547,318 + 171,858)		<u>1,719,176</u>	
		1,993,660	
(1) On disposal gains			
First 100,000	10,000		
Next 174,484 at 25%	<u>43,621</u>	53,621	1
(2) On income			
First 144,000	13,050		
Next 1,575,176 at 25%	<u>393,794</u>	406,844	1
		460,465	
Less: withholding tax on rents	193,391		0·5
Less: withholding tax on interest	<u>0</u>	(193,391)	0·5
Net tax payable		<u>267,074</u>	
As an individual, Moses will be required to submit a tax return by 30 September 2013 and to pay the tax due within 30 days of the service of the notice of assessment.			2
			<u>5</u>
(e) Bank interest received			
With effect from 1 July 2012, where interest paid to a resident individual by a bank or building society has been subjected to withholding tax, then that tax will be the final tax and the resident individual is not required to include the interest received in his/her gross income.			2
			<u>25</u>

2 Okavango Safaris (Pty) Ltd

(a) Balancing charge

	P	
(1) Equipment		
Cost	213,906	
Less: capital allowances	(127,284)	0·5
	<u>86,622</u>	
Sale proceeds	175,000	0·5
	<u>88,378</u>	
Less: rollover relief	(88,378)	1·5
	<u>0</u>	
(2) Safari lodge		
Capital allowances claimed	527,814	1·5
Total balancing charge	<u>527,814</u>	
		<u>4</u>

Tutorial notes:

1. When a building is sold, the balancing charge is limited to the capital allowances claimed to date [Third Schedule, Part V, Para 3].
2. For balancing charge purposes, rollover relief can only be claimed on the disposal of plant or machinery, not buildings.

(b) Capital gain on disposal of Xanaka Safari Lodge

A gain arising on the disposal of immovable property used in a business can be held over if the gain is reinvested in a new property within 12 months of the original disposal. [Tenth Schedule, Para 14(1)] 1·5

As the Kudumetse Camp was purchased within three months of the sale of the Xanaka Safari Lodge, the gain can be rolled over and will only accrue when the Camp property is sold. 0·5

	P	
Cost of lodge building	4,739,867	0·5
Indexation $(4,739,867 \times 1492\cdot1 - 1165\cdot0/1165\cdot0)$	<u>1,330,824</u>	1
Tax cost	6,070,691	
Sales proceeds	<u>7,500,000</u>	0·5
Disposal gain	1,429,309	
Claim for rollover relief	(1,429,309)	1
Net disposal gain	<u>0</u>	
		<u>5</u>

(c) Base cost of Kudumetse Camp

	P	
Original cost	8,800,000	
Less: amount held over on disposal of Xanaka Safari Lodge (from part (b))	<u>(1,429,309)</u>	
Base cost	<u>7,370,691</u>	<u>2</u>

(d) Capital allowances for the year ended 30 April 2013

	Buildings P	Equipment P	Total P	
Cost at 30 April 2012	4,739,867	213,906	4,953,773	
Disposals	(4,739,867)	(213,906)	(4,953,773)	0.5
Additions (working)	8,300,000	211,622	8,511,622	1.5
Cost at 30 April 2013	8,300,000	211,622	8,511,622	
Capital allowances at 30 April 2012	527,814	127,284	655,098	
Disposals	(527,814)	(127,284)	(655,098)	0.5
Initial allowance	2,075,000	–	2,075,000	1
Annual allowances	207,500	31,743	239,243	1
Capital allowances at 30 April 2013	2,282,500	31,743	2,314,243	
Tax value at 30 April 2013	6,017,500	179,879	6,197,379	0.5
				<u>5</u>

Working:

	P
Equipment: cost	300,000
Less: rollover relief (as in part (a))	(88,378)
	<u>211,622</u>

Tutorial note: A hotel or a safari lodge is entitled to a 25% initial allowance.

(e) Taxable income for the year ended 30 April 2013

	P	P	
Net profit per accounts		5,489,815	
Add: management fees paid to non-resident	758,275		1
depreciation	1,629,532		0.5
assets expensed	103,724		1
impairment of investment	265,000		0.5
donations	27,881		0.5
balancing charge (from part (a))	527,814	3,312,226	0.5
Less: profit on sale of assets	130,368		0.5
profit on sale of lodge	3,567,041		0.5
fair value adjustment	250,000		1
management fees paid to non-resident (115,000/15%)	770,000		2
capital annual allowances (from part (d))	239,243		0.5
capital investment allowances (from part (d))	2,075,000	(7,031,652)	0.5
Chargeable income		<u>1,770,389</u>	
Taxable income		<u>1,770,389</u>	<u>9</u>

Tutorial note: The management fees are deductible only to the extent that the related withholding tax has been paid in the year, not when the fees themselves have been paid or the expense was incurred.

(f) Zero-rating for value added tax (VAT)

The following conditions must be satisfied for the sale to be a zero rated supply:

(1) The sale must be of a going concern.	1
(2) Both the buyer and seller must be registered VAT vendors.	1
(3) The contract for sale must be in a written agreement.	1
(4) The contract must be furnished to the Director with 21 days of the supply.	1
(5) The contract must stipulate the assets being transferred.	1
	<u>5</u>
	<u>30</u>

3 (a) (i) Nature and scope of value added tax (VAT)

VAT is an indirect tax which is borne by the consumer (end-user) but is charged and collected by registered businesses on the value added by them in conducting their business activities.

2

VAT is charged on all supplies of goods and services made by registered persons in Botswana and also on the import of goods into the country.

1

3**(ii) Types of supply**

Standard rated

0.5

Zero rated

1

Exempt

0.5

2**(b) Samco Davis Communications (Pty) Ltd**

Value added tax (VAT) for the period ended 31 August 2013

	P	
Income		
Sales in Botswana	3,752,986	0.5
Sales exported	0	0.5
Sale of saloon car	0	0.5
Sale of scrap	23,093	0.5
Interest received	0	0.5
Credit notes re purchases returned to suppliers	106,382	0.5
Sale of truck	58,000	1
	<u>3,940,461</u>	
Expenses		
Purchases	2,078,293	0.5
Credit notes re price adjustments on goods exported	0	0.5
Salaries and wages	0	0.5
Staff refreshments	0	0.5
Commercial rentals	37,834	0.5
Entertainment	0	0.5
Electricity and water	10,743	0.5
Purchase of testing machines	153,928	0.5
Medical aid payments	0	0.5
Residential rentals	0	0.5
Pension contributions	0	0.5
	<u>2,280,798</u>	
Excess of outputs over inputs	<u>1,659,663</u>	
VAT payable at 12%	<u>199,160</u>	0.5
		<u>10</u>
		<u>15</u>

4 Kwena Products (Proprietary) Ltd**(a) Liability to withholding tax**

1. The definition of a 'commercial royalty' and 'management and consultancy fee' includes the 'exploitation of software' (effective 1 July 2012). Accordingly, the payment to a non-resident for the use of software is a royalty and is liable to withholding tax. 2
2. Although withholding tax normally applies to interest paid to residents, there is an exception in the case of interest paid to a bank. So there is no withholding tax. 1
3. The payment of management, administration and technical fees to a non-resident is liable to withholding tax. Procurement fees would fall into this category. 1
4. There is no withholding tax in respect of technical fees paid to a resident. 1

	Marks
5. Transport charges do not fall within the definition of 'management and consultancy fee' and accordingly there are no withholding tax consequences.	1
6. Hire of equipment from a non-resident falls within the definition of a 'commercial royalty' and is liable to withholding tax.	1
7. All dividends are liable to withholding tax.	0.5
8. Rentals, even if paid to an individual, are subject to withholding tax.	1
9. Commissions paid are liable to withholding tax.	0.5
	<u>9</u>

(b) Withholding tax payable

	Rate %	Amount P	
1. Exploitation of software of a non-resident	15	33,981	0.5
2. Interest paid to a local bank	0	0	0.5
3. Procurement fee paid to a non-resident	15	22,092	0.5
4. Technical fees paid to a resident	0	0	0.5
5. Transport charges paid to a non-resident	0	0	0.5
6. Hire of equipment from a non-resident	15	24,155	0.5
7. Dividends	7.5	63,750	0.5
8. Rentals	5	9,100	1
9. Commissions	10	6,863	0.5
Total withholding tax		<u>159,941</u>	<u>5</u>

(c) Date of payment of withholding tax

Tax withheld from payments must be paid over no later than the 15th of the month following payment.	1
	<u>15</u>

5 (a) David Ratlhogo

(i) Taxable income for the year ended 30 June 2013

	P	
Basic salary	600,000	0.5
Commission received	238,736	0.5
Company car (10,000 + 15% x 180,000)	37,000	0.5
Company provided housing (620, 000 x 10% – 24,000)	38,000	1
Utilities paid by the company	32,865	0.5
School fees paid by the company	63,872	0.5
Medical aid paid by the company	0	0.5
Cell phone allowance	18,000	0.5
Employer's pension contributions	0	0.5
Entertainment expenses reimbursed	0	1
Leave encashed	37,450	1
Labour Court award	50,000	1
Chargeable income	<u>1,115,923</u>	
Less: employees pension contribution	(30,000)	1
Taxable income	<u>1,085,923</u>	<u>9</u>

Tutorial notes:

1. An employer's contributions to a medical aid fund are excluded from chargeable income.
2. An employer's contributions to a pension scheme do not constitute chargeable income.
3. A reimbursement of expenses does not constitute chargeable income.
4. An award by the Labour Court is still chargeable income in the hands of the employee.

(ii) Tax payable for the year ended 30 June 2013

	P	
First 144,000	13,050	
Next 941,923 at 25%	235,481	
	248,531	0.5
Less: PAYE deducted	(237,129)	0.5
Net tax payable	11,402	
		<u>1</u>

(b) PAYE

(i) Remuneration for PAYE includes:

- salaries and wages;
- bonuses;
- cash allowances;
- commissions;
- pensions;
- non-cash benefits incurred by an employer on behalf of an employee;
- lump sum payments; and
- commutation payments made under a contract of employment.

Any FOUR items, 0.5 marks each, maximum 2

(ii) For the purposes of PAYE:

- (1) Any person who pays remuneration to an employee must register as an employer and deduct PAYE. 1
- (2) The amount of PAYE to be deducted is determined in accordance with the tax deduction tables prescribed by BURS. 0.5
- (3) The annual certificate is form ITW 8. 0.5
- (4) The prescribed contents of form ITW8 are:
 - the total remuneration accrued to the employee; 0.5
 - the total tax deducted from such remuneration. 0.5

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