

Fundamentals Level – Skills Module

# Taxation (Botswana)

Tuesday 3 December 2013



**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 – 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%

**Companies**

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

<b>VAT rate</b>	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

	Resident	Non-resident
Interest	10%	15%
Dividends	7.5%	7.5%
Entertainment fees	–	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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
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

	<b>2010</b>	<b>2011</b>	<b>2012</b>
January	1223·2	1320·0	1436·1
February	1225·4	1330·2	1440·0
March	1234·6	1338·9	1446·5
April	1256·2	1359·0	1460·4
May	1268·6	1373·6	1480·0
June	1285·3	1386·4	1487·3
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	

**ALL FIVE questions are compulsory and MUST be attempted**

- 1** Moses Gaetsiwe is a property owner and also a 60% partner in a butchery.

His receipts and payments for the year ended 30 June 2013 are as follows:

**Receipts**

	<b>P</b>
Rents received net of withholding tax	3,674,429
Security deposits received from tenants	28,076
Sale proceeds of Plot 3682 Mogoditshane	785,000
Interest received from a bank net of withholding tax	32,690
Sale proceeds from the sale of shares listed on the BSE	126,835
Bank loan received	350,000
Insurance receipt due to flood damage	52,500
Dividends received net of withholding tax	16,354
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	5,065,884

**Payments**

Business salaries and wages	498,710
Capital improvements to properties	2,380,361
Collection commission	86,297
Council rates	297,013
Legal fees on the sale of Plot 3682 Mogoditshane	10,628
Loan to butchery business	300,000
Mortgage interest	580,271
Moses Gaetsiwe drawings	1,200,000
Purchase of shares listed on the BSE	250,000
Repairs and maintenance	299,671
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	5,902,951

Excess of payments over receipts	<hr/> (837,067)
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**Additional information:**

1. Withholding tax deducted from income was as follows:

	<b>P</b>
Rents	193,391
Interest	3,632
Dividends	1,326

2. Plot 3682 Mogoditshane was sold in November 2012. The original cost of the land in May 2007 was P100,000. A building costing P320,000 was erected in November 2010. Capital allowances amounting to P16,000 had been claimed as at 30 June 2012.
3. The BSE listed shares were sold in March 2013. They had originally cost P82,000 in October 2012.
4. The total chargeable income from the butchery business for the year ended 30 June 2013 was P286,430.
5. The written down tax value of Moses' commercial properties at 30 June 2012 was as follows:

	<b>P</b>
Cost of commercial properties	42,969,638
Capital allowances granted	(8,686,242)
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Tax value at 30 June 2012	34,283,396

**Required:**

**In respect of Moses Gaetsiwe for the year ended 30 June 2013:**

**(a) Calculate his total disposal gain or loss.** (5 marks)

**(b) Calculate his chargeable income from rentals, showing all elements of gross income and all allowable deductions.**

Note: Indicate any rental amounts which are not taxable or not allowable by the use of zero (0). (10 marks)

**(c) Calculate his taxable income from all sources.** (3 marks)

**(d) Calculate his net tax payable and state how and when it will be paid.** (5 marks)

**(e) Explain the taxation treatment of the interest received from a bank.** (2 marks)

**(25 marks)**

**2** The results of Okavango Safaris (Pty) Ltd for the year ended 30 April 2013 are as follows:

	P	P
Sales		16,785,291
Interest received		68,726
Profit on sale of assets		130,368
Profit on sale of Xanaka Safari Lodge		3,567,041
Fair value adjustment		250,000
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		20,801,426
Purchases	6,769,062	
Salaries and wages	4,720,991	
Management fees paid to a non-resident	758,275	
Depreciation	1,629,532	
Assets expensed	103,724	
Motor vehicle expenses	486,219	
Rent	362,207	
Impairment of investment	265,000	
Interest paid to Botswana bank	188,720	
Donations	27,881	
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Net profit for the year		5,489,815
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**Further information:**

1. The profit on the sale of assets is made up as follows:

	P
Cost of lodge equipment	213,906
Depreciation	(169,274)
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	44,632
Sales proceeds	175,000
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Profit on sale	130,368
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Capital allowances claimed on these assets amounted to P127,284.

2. The profit on the sale of the safari lodge was as follows:

	P
Cost of lodge buildings (March 2009)	4,739,867
Fair value adjustment	883,727
Depreciation	(1,690,635)
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	3,932,959
Sales proceeds	7,500,000
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Profit on sale	3,567,041
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The lodge was sold in July 2012. Capital allowances claimed amounted to P527,814.

3. A new lodge called Kudumetse Camp was purchased in September 2012 for a total cost of P8,800,000, of which P500,000 related to the land and the remainder to the buildings. A further P300,000 was paid for camp equipment.
4. During the year, withholding tax paid on the management fees was as follows:

	P
In respect of 2012 fees	37,500
In respect of 2013 fees	78,000
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	115,500
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5. The tax value of the company's assets at 30 April 2012 were:

	<b>Buildings</b>	<b>Equipment</b>	<b>Total</b>
	<b>P</b>	<b>P</b>	<b>P</b>
Cost at 30 April 2012	4,739,867	213,906	4,953,773
Capital allowances at 30 April 2012	527,814	127,284	655,098

**Required:**

**In respect of Okavango Safaris (Pty) Ltd for the year ended 30 April 2013:**

- (a) Calculate the balancing charge or allowance on the sale of all assets, claiming any relief which is available.**  
(4 marks)
- (b) Identify and explain the relief available on the sale of Xanaka Safari Lodge and calculate the disposal gain, net of any relief.**  
(5 marks)
- (c) State the base cost of Kudumetse Camp for the purposes of disposal gains.**  
(2 marks)
- (d) Prepare the company's capital allowance claim and show the tax values of its assets at 30 April 2013.**  
(5 marks)
- (e) Calculate the company's taxable income.**  
(9 marks)
- (f) List the requirements for the sale of Xanaka Safari Lodge to be zero rated for value added tax (VAT) purposes.**  
(5 marks)

**(30 marks)**

- 3 (a) (i) Explain the nature and scope of value added tax (VAT). (3 marks)
- (ii) List the three types of VAT supply. (2 marks)
- (b) The following are the transactions of Samco Davis Communications (Pty) Ltd for the tax period ended 31 August 2013. All figures are stated excluding value added tax (VAT).

	P
<b>Income</b>	
Sales in Botswana	3,752,986
Sales exported	145,892
Profit on sale of saloon car	19,925
Sale of scrap	23,093
Interest received	6,794
Credit notes re purchases returned to suppliers	106,382
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	4,055,072
<b>Expenses</b>	
Purchases	2,078,293
Credit notes re price adjustments on goods exported	34,702
Salaries and wages	852,097
Staff refreshments	894
Commercial rentals	37,834
Entertainment	1,782
Electricity and water	10,743
Purchase of testing machines	153,928
Loss on sale of truck	25,395
Medical aid payments	17,520
Residential rentals	20,750
Pension contributions	22,674
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	3,256,612

The profit/(loss) on the sale of the saloon car and the truck are made up as follows:

	Car P	Truck P
Cost price	185,350	428,670
Depreciation	(160,275)	(345,275)
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	25,075	83,395
Sale proceeds	45,000	58,000
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Profit/(loss) on sale	19,925	(25,395)

**Required:**

**Calculate the value added tax (VAT) payable by or refundable to Samco Davis Communications (Pty) Ltd for the tax period ended 31 August 2013.**

**Note:** Indicate any items on which output tax is not payable or input tax is not claimable by the use of zero (0). (10 marks)

**(15 marks)**

**4** The following transactions were made by Kwena Products (Proprietary) Ltd in the year ended 30 September 2013:

1. Fees paid to a non-resident for the right to use a computer program of P226,539.
2. Overdraft interest paid to a local bank of P353,821.
3. Procurement fees paid to a non-resident of P147,280.
4. Technical fees paid to a resident consulting engineer of P98,682.
5. Transport charges paid to a non-resident trucking company of P186,237.
6. Hire of equipment from a non-resident of P161,031.
7. Dividends paid to shareholders of P850,000.
8. Rent paid to an individual in respect of a house occupied by the company's managing director of P182,000.
9. Commission paid to an independent sales person of P68,632.

**Required:**

- (a) **State, giving reasons, whether or not withholding tax is payable on each of the above transactions.**  
(9 marks)
- (b) **Calculate the withholding tax (if any) payable by Kwena Products (Proprietary) Ltd in respect of each of the above transactions.**  
(5 marks)
- (c) **State the date by which the tax withheld from payments must be paid over to the Botswana Unified Revenue Service (BURS).**  
(1 mark)

**(15 marks)**

- 5 (a) David Ratlhogo is the managing director of Northern Valley Enterprises (Pty) Ltd. Details of his earnings for the year ended 30 June 2013 are:

	P
Basic salary	600,000
Commission received	238,736
Company car	Cost 380,000
Company provided housing	Rateable value 620,000
Utilities paid by the company	32,865
School fees paid by the company	63,872
Medical aid paid by the company	24,618
Cell phone allowance	18,000
PAYE withheld	237,129

**Other information:**

1. David is a member of the company's pension scheme to which he contributes 5% of his basic salary and the company contributes 10%
2. David pays P24,000 towards his company provided house.
3. David was reimbursed P13,716 for entertainment expenses which he had incurred during the year.
4. During the year David cashed in some of his leave for P37,450.
5. In October 2012, the Labour Court awarded David P50,000 as a result of a pay dispute against the company commenced in the previous year.

**Required:**

- (i) Calculate David Ratlhogo's taxable income for the year ended 30 June 2013.

Note: Indicate any amounts not taxable or not deductible by the use of zero (0). (9 marks)

- (ii) Calculate the tax payable by or refundable to David Ratlhogo for the tax year ended 30 June 2013. (1 mark)

- (b) With respect to the PAYE system of withholding tax:

- (i) List any FOUR types of remuneration which are subject to PAYE. (2 marks)

- (ii) State:

- which persons are liable to deduct PAYE;
- the method by which the amount of PAYE to be deducted is ascertained;
- the name of the certificate which must be provided annually in respect of each employee; and
- the prescribed contents of the certificate (as above). (3 marks)

**(15 marks)**

**End of Question Paper**