Answers

Section B

Marks

1 Tau Industries

(a) Net disposal gain

	P	P	P	Marks
Repair division				
Sale of goodwill		111,750		1
Less: 25% moveable property allowance		(27,937)	83,813	0·5
Elite Electrical Installations (Pty) Ltd				
Sale of shares		2,250,000		0·5
Less: cost of shares		(2,500,000)	(250,000)	0·5
Plot 14825 Gaborone				
Original cost – November 2009	1,325,000			
Indexation (working 1)	542,323	1,867,323		1
Extensions – February 2011	557,000			
Indexation (working 2)	161,296	718,296		1
		2,585,619		
Sale price		2,800,000	214,381	0·5
Net disposal gain			48,194	
				5

Workings:

1. (1715·40 – 1217·20)/1217·20 x 1,325,000 = 542,323
2. (1715·40 – 1330·20)/1330·20 x 557,000 = 161,296

(b) Net disposal loss if claim rollover relief

	P	P	Marks
Sale of repair division		83,813	0·5
Sale of shares in Elite Electrical Installations (Pty) Ltd		(250,000)	0·5
Sale of Plot 14825 Gaborone	214,381		0·5
Less: rollover relief	(214,381)	0	1·5
Net disposal loss		(166,187)	
			3

(c) Conditions for rollover relief (only 2 required)

(i) Reinvest part or all of gain in another immoveable property.
(ii) Within one year of disposal.
(iii) New property must be used in the business.
(iv) Claim for rollover relief must be made within one year of disposal.

1 mark each, maximum 2

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2 Health Alternatives

(a) Date of formal objection

A taxpayer has 60 days from the notice of assessment to submit a formal objection to the assessment. The objection must therefore be submitted before 17 July 2017. 1

Marks

(b) Undeclared income

In Botswana, gross income only comes into charge when it has accrued rather than when cash is received. There is no definition of an accrual but case law is that there is an accrual when the taxpayer has an inalienable right to that income. In this case although the money has been received, the goods have not been delivered and accordingly there has been no accrual. 3

(c) Disallowed expenses

The company should argue that the kits were purchased for the purpose of earning profits in the year ended 30 September 2016, rather than in any future years. Therefore, the expenditure is not capital in nature and should be allowed as a deduction against taxable income for the year ended 30 September 2016. 2

(d) Late submission penalty

The 2016/2017 tax return should have been submitted by 31 January 2017. It was in fact submitted 64 days later and at P100 per day, the penalty will be P6,400. 2

(e) SAT interest

SAT is paid in advance on a quarterly basis and by the year end the taxpayer must be 80% paid up of the final tax liability. For interest purposes, any late payment of payment below 20% of the final liability will attract interest at the rate of 1·5% per month. 2

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3 Quality Products

(a) Taxable income

	P	P	
Net profit per accounts		1,738,728	
Add: depreciation	121,053		0·5
Add: administration fees paid to non-resident	360,000		0·5
Add: consulting fees paid to resident	0		0·5
Add: insurance paid to a non-resident	0		0·5
Add: interest paid to a non-resident	179,260		0·5
Add: rent paid to resident	0		0·5
Add: software development costs paid to a non-resident	559,273		0·5
Add: technical fees paid to a non-resident	286,300		0·5
Add: transport costs paid to a non-resident	0	1,505,886	0·5
Less: capital allowances	207,251		0·5
Less: administration fees paid to non-resident	253,100		1
Less: interest paid to a non-resident	135,000		0·5
Less: software development costs paid to a non-resident	0		1
Less: technical fees paid to a non-resident	182,300	(777,651)	0·5
Taxable income		2,466,963	
			8

Tutorial note: *Only amounts which are paid to non-residents need to be adjusted in a tax computation. The deduction allowed in respect of such expenses is the amount in respect of which withholding tax has been paid during the year. This is calculated by dividing the amount of withholding tax paid by 15% (being the rate applicable to the payments made by Quality Products to non-residents).*

(b) Time of payment of WHT

Withholding tax must be paid to BURS no later than the 15th of the month following which payment of the expense is made to the recipient. 1

(c) Penalties for late payment

Interest of 1·5% per month or part thereof can be charged on any amounts paid late. 1

10

Marks

4 Uniquip Botswana

(a) VAT issues

1. An input adjustment is allowed in respect of discounts given to customers. By concession, tax invoices are not required to support the adjustment. No adjustment required. 1
2. The golden rule for the time of supply is the earlier of tax invoice issued or cash received. In this case, both the issue of a tax invoice and cash receipt were in the following tax period. No adjustment required. 1
3. Certain expenses constitute prohibited inputs. There is no VAT on petrol and accordingly no adjustment is necessary. The VAT charged on car repairs is fully deductible. Hotel bills and entertainment expenses are classified as entertainment and are therefore prohibited inputs. The adjustment therefore is:

	P	Marks
Petrol costs	0	0·5
Hotel accommodation and meal costs	2,586	0·5
Entertainment costs	894	0·5
Car repairs	0	0·5
	3,480	

4. Insurance claims received must be reported as an output. Such claims are paid inclusive of VAT. Adjustment required. 1
5. Any sale, including the sale of scrap, must raise VAT. Adjustment required. 1

6

(b) Revised net outputs

	P	Marks
Net outputs as originally reported	679,148	
Add: prohibited inputs	3,107	1·5
Add: insurance claim	70,243	1·5
Add: sale of scrap	32,813	1
Revised net outputs	785,311	
		4
		10

Tutorial note: *The prohibited inputs and the insurance receipt are both inclusive of VAT. In order to adjust the return as originally reported, the VAT amount must be removed.*

5 Group Seven

(a) Balancing charge or allowance

	Plant	Vehicles	Total	
	P	P	P	
Cost	638,900	126,525	765,425	0·5
Capital allowances	(389,402)	(100,728)	(490,130)	
	249,498	25,797	275,295	
Sales proceeds	350,000	0	350,000	
Net balancing charge	100,502	(25,797)	74,705	1·5
				2

(b) Claim for capital allowances

Working 1 – cost of new plant

	P	
Cost of new plant	820,750	
Less: balancing charge rolled over	(100,502)	1·5
Net cost	720,248	

Marks

Working 2 – capital allowances

	Plant	Vehicles	Total	
	P	P	P	
Cost at 31 March 2016	2,863,924	872,980	3,736,904	
Additions – working	720,248		720,248	0·5
Disposals	(638,900)	(126,525)	(765,425)	0·5
Cost at 31 March 2017	2,945,272	746,455	3,691,727	
Capital allowances at 31 March 2016	1,377,829	572,114	1,949,943	
Current year claim	441,791	186,614	628,405	1
Disposals	(389,402)	(100,728)	(490,130)	0·5
Capital allowances at 31 March 2017	1,430,218	658,000	2,088,218	
Net tax value at 31 March 2017	1,515,054	88,455	1,603,509	
				4

(c) Taxable income

	P	P	
Net profit for the year		430,589	
Add: depreciation	563,824		0·5
Add: impairment of investments	756,372		1
Add: loss on sale of fixed assets	78,037		0·5
Add: provision for future expenses	152,850		1
Add: rental deposit	120,000		1
Add: rental smoothing	58,229		1
Add: balancing charge	0	1,729,312	
Less: capital allowances – working	628,405		0·5
Less: dividends received	82,993		0·5
Less: fair value adjustment	150,250		1
Less: interest paid to non-residents	454,693		1
Less: balancing allowance – working	25,797	(1,342,138)	1
Taxable income		817,763	
			9
			15

6 Albert Kamodi

(a) Chargeable income from employment

	P	P	
Salary		675,000	
Motor vehicle benefit		28,000	0·5
School fees		70,000	0·5
Medical aid		0	1
Housing allowance		48,000	1
		821,000	
Severance pay	375,000		
Less: 1/3 exempt	(125,000)	250,000	1
Chargeable income from employment		1,071,000	
			4

			Marks

(b) Chargeable income from business

Working – capital allowances

		P	
Cost at 30 April 2016		672,964	
Van purchased		125,000	0·5
		797,964	
Capital allowance – current year at 25%		199,491	1

	P	P	
Net loss per accounts		(130,068)	
Add: drawings	42,500		0·5
Add: school fees	30,000		0·5
Add: VAT penalties	17,294		0·5
Add: contaminated stock written off	0		1
Add: purchase of van	125,000	214,794	0·5
Less: capital allowances – working		(199,491)	0·5
Loss from business		(114,765)	
			5

Split as follows:

Samuel Kamodi	(68,859)	
Albert Kamodi	(45,906)	
	(114,765)	

(c) Taxable income

		P	
Chargeable income from employment		1,071,000	0·5
Loss from business	Note	0	2
Interest received from a building society		0	1
Interest received from uncle		22,400	0·5
Dividends received		0	0·5
		1,093,400	
Less: contribution to a retirement annuity fund		(28,500)	0·5
Taxable income		1,064,900	
			5

Tutorial note: *A loss from a business cannot be set off against employment income.*

(d) Albert's tax loss carried forward

Albert's tax loss	(45,906)	1
		15