

Fundamentals Level – Skills Module

Taxation (Botswana)

Tuesday 4 June 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 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.

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

	Resident	Non-resident
Interest	10%	15%
Dividends	7.50%	7.50%
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
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	
November	1304·2	1424·0	
December	1309·1	1428·8	

ALL FIVE questions are compulsory and MUST be attempted

- 1** Thapelo Sethibe is an account executive with Kgale Financial Services (Pty) Ltd ('Kgale'). She also owns the Oasis Guest House ('Oasis') which is run by her mother.

1. Thapelo's employment package from Kgale for the year ended 30 June 2012 is:

	P
Annual salary	360,000
Housing allowance	60,000
Medical aid	24,000
Pension – company contribution	36,000
Pension – employee contribution	18,000
Company car	Cost 235,000

2. During the year, Thapelo cashed in leave which amounted to P46,227.

3. The results of Oasis Guest House for the year ended 30 June 2012 are:

	P	P
Gross profit		369,022
Less: salary of mother	180,000	
Less: school fees of son	23,000	
Less: purchase of furniture	89,264	
Less: purchase of kitchen equipment	102,784	
Less: drawings	48,000	(443,048)
Net loss		(74,026)

The salary paid to her mother is consistent with the value of the work performed.

4. Details of capital allowances at 30 June 2011 are:

	Furniture P	Equipment P
Cost at 30 June 2011	138,866	268,676
Capital allowances at 30 June 2011	(48,917)	(79,035)
Tax value 30 June 2011	89,949	189,641

5. Thapelo owns a house which she rents to Argon Press (Pty) Ltd. Rent received for the year ended 30 June 2012 amounted to P48,550. The following expenses were incurred:

	P
Insurance	4,690
Council rates	2,895

5. Details of other receipts for the year ended 30 June 2012 are:

	P
Dividends	42,883
Interest	70,906
Sale of shares in Engen Botswana Ltd	148,312

The shares in Engen, which are listed on the Botswana Stock Exchange, had cost P68,000 in October 2011.

6. Withholding tax deducted amounted to:

	P
Salary	98,372
Dividends	6,432
Bank interest	7,091
Rents	2,428

Required:

In respect of Thapelo Sethibe for the year ended 30 June 2012:

- (a) Calculate her chargeable income/loss from the Oasis Guest House.** (6 marks)
- (b) Calculate her chargeable income from rents.** (2 marks)
- (c) Calculate her net disposable gain, if any.** (3 marks)
- (d) Calculate her taxable income.**

Note: You should indicate items which are not taxable by including them in the calculation as zero (0).

(10 marks)

- (e) Calculate her net tax payable or refundable.** (4 marks)

(25 marks)

- 2 The following are the results of Acton Manufacturing Company (Pty) Ltd, a company recognised as an approved manufacturing company for tax purposes, for the year ended 31 March 2013:

	P
Income	
Sales	8,390,263
Fair value adjustment	296,224
Rent received	142,896
Interest received	67,382
	<u>8,896,765</u>
Expenses	
Cost of sales	3,611,805
Salaries and wages	1,960,321
Administrative expenses	874,139
Goodwill written off	200,000
Impairment of investment	375,000
Loss on sale of plant	39,897
Depreciation	489,729
Donations	28,526
Amortisation of patent	58,027
Provision for future expenses	176,800
Management fees	350,000
	<u>8,164,244</u>
Net profit for the year	<u>732,521</u>

The following additional information is provided:

1. The tax value of the assets at 1 April 2012 is made up as follows:

	Furniture	Plant	Vehicles
	P	P	P
Cost	275,034	2,893,682	1,678,338
Accumulated capital allowances	(87,290)	(1,652,906)	(873,752)
Tax value 1 April 2012	<u>187,744</u>	<u>1,240,776</u>	<u>804,586</u>

2. The loss on sale of plant is calculated:

	P
Cost	528,113
Accumulated depreciation	(208,216)
	<u>319,897</u>
Fair value adjustment	120,000
Sales price	(400,000)
Loss on sale	<u>39,897</u>

Capital allowances amounting to P328,424 had been claimed in respect of the sold plant as at 31 March 2013.

3. Replacement plant was purchased for P822,600.
4. Management fees are payable to a non-resident. Withholding tax of P26,250 was paid during the year.

5. The company made the following tax payments during the year:

	P
Self-assessment tax	150,000
Withholding tax on interest received	6,738
Withholding tax on rent received	7,145

Required:

- (a) Calculate the balancing charge or allowance for Acton Manufacturing Company (Pty) Ltd for the year ended 31 March 2013 on the sale of plant, taking advantage of any reliefs that are granted. (3 marks)
- (b) Calculate the taxable income for Acton Manufacturing Company (Pty) Ltd for the year ended 31 March 2013. (13 marks)
- (c) Calculate the net tax payable by or refundable to Acton Manufacturing Company (Pty) Ltd for the year ended 31 March 2013. (2 marks)
- (d) The sole shareholder of Acton Manufacturing Company (Pty) Limited, James Kamwenda, has received an offer of P5 million for the entire share capital which originally cost P2,000,000. James would prefer for the company to sell its assets for P2,500,000 and goodwill of P2,500,000.

Required:

Calculate the tax payable in respect of (1) the sale of shares by James or (2) the sale by the company of its assets, and advise James of the most tax efficient option.

Note: You should assume the following:

- 1. There are no other transactions.
- 2. If the company sells its assets and goodwill, the net proceeds would be extracted from the company by James in the form of a dividend.
- 3. The net current assets of the company following the asset sale and subsequent dividend payment would be zero. (12 marks)

(30 marks)

- 3 The following are the transactions (inclusive of value added tax (VAT) where applicable) of Quality Tools (Proprietary) Limited for the tax period ended October 2012:

	P
Income	
Sales – local	3,913,168
Sales – export	344,540
Discount received	4,312
Profit on sale of plant (Note)	9,996
Interest received	13,496
Dividends received	5,040
Expenditure	
Purchases	2,123,828
Salaries and wages	900,116
Rent of house	5,600
Interest paid	21,196
Purchase of saloon car	179,200
Fair value adjustment	280,000
Petrol and diesel	51,576
Purchase of furniture	43,120
Rent of warehouse	22,400
Bank charges	7,028

Note

The net book value of the plant was P12,068.

Required:

- Categorise each of the above transactions into standard rated, zero rated, exempt and those to which value added tax (VAT) does not apply.** (8 marks)
- Calculate the VAT payable by or refundable to Quality Tools (Proprietary) Limited for the tax period ended October 2012.** (4 marks)
- Briefly define the scope of VAT in Botswana.** (3 marks)

(15 marks)

- 4 Masego Selema works for Momentum Enterprises (Pty) Ltd and his current employment package is:

	P
Annual salary	720,000
100% medical aid paid by the company	20,000
10% pension contribution paid by the company	72,000
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	812,000
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He would like to negotiate a different package and suggests the following:

Annual salary of P550,000
Company car costing P225,000
Company provided housing up to a maximum rental of P78,000
Utility bills paid up to a maximum of P50,000 per annum
50% medical aid contributions paid by the company
10% pension contribution paid by the company
School fees paid up to a maximum of P75,000 per annum
Annual return airfares to Kasane, his place of hire, up to a maximum of P25,000.

Additional information:

The company house has a rateable value of P628,000 and is 2,100 square metres in size.

Required:

- (a) Advise Masego whether his suggested package will result in any tax savings, assuming that the maximum expenditure is incurred. (8 marks)
- (b) Explain the need for the PAYE system, and briefly explain its scope and the main responsibilities of employers. (4 marks)
- (c) List ANY THREE factors which determine whether a person is considered to be an employee and ANY THREE which indicate self-employment. (3 marks)

(15 marks)

5 Nonofu Motatsi seeks your advice on some transactions for the tax year ended 30 June 2012.

1. Sale of shares and loan account in Pego Projects (Pty) Ltd for the following amount:

	P
300 shares	400,000
Loan account	225,000
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	625,000
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The shares had been purchased in October 1993 for P56,000.

2. Sale of a valuable painting for P100,000. She had inherited the painting from her late father in February 2002.
3. Sale of 1,000 shares in Masunga Enterprises Limited, a company which is listed on the Botswana Stock Exchange, for P550,000. The original cost was P400,000 in July 2007.
4. Sale of agricultural produce from her property in Kanye. Total sales amounted to P176,850 and direct costs amounted to P39,425. This represented a new business venture.
5. The sale of a right to receive 10% of the pre-tax profits of Kopano Industries (Pty) Ltd for P280,000. The right had been given to Nonofu in 1995 for no consideration.

Required:

(a) In respect of transactions 1 to 5 above, state, giving reasons, whether each transaction is liable to tax and, where appropriate, calculate the taxable amount. (11 marks)

(b) State the date that Nonofu should submit her 2012 tax return. (1 mark)

(c) Explain how the residence of an individual is determined, and why determining residence is important. (3 marks)

(15 marks)

End of Question Paper