
Answers

1 Michael Morupeng

(a) Calculation of capital allowances

	Equipment P	Vehicles P	Total P
Cost at 1 July 2007	128,476	206,450	334,926
Additions – truck	–	85,000	85,000
Disposal – tractor	–	(30,000)	(30,000)
Cost at 30 June 2008	<u>128,476</u>	<u>261,450</u>	<u>389,926</u>
Allowances at 1 July 2007	113,046	79,250	192,296
Current year	15,430	65,363	80,793
Disposal	–	(7,500)	(7,500)
Allowances at 30 June 2008	<u>128,476</u>	<u>137,113</u>	<u>265,589</u>
Tax value at 30 June 2008	<u>–</u>	<u>124,337</u>	<u>124,337</u>

(b) Calculation of balancing allowance

	P
Cost of tractor	30,000
Less: capital allowances	(7,500)
Tax value	<u>22,500</u>
Sales price	(15,750)
Balancing allowance	<u>6,750</u>

(c) Computation of farming loss

	P	P
Sales		2,126,324
Closing stock (1,426 x P430)		<u>613,180</u>
		2,739,504
Opening stock (1,182 x P430)	508,260	
Purchases	1,465,221	
Wages	361,894	
Bush clearing	78,552	
Dam construction	107,216	
Fencing	68,475	
Administrative expenses	<u>149,213</u>	(2,738,831)
		673
Less: capital allowances		(80,793)
Less: balancing allowance		(6,750)
Farming loss		<u>(86,870)</u>

(d) Computation of taxable income

	P
Rental income (ex working)	33,759
Pension	193,422
Interest (P59,210 – 6,000)	<u>53,210</u>
Chargeable income	280,391
Less: current year farming loss (less than 50% of chargeable income)	(86,870)
Taxable income	<u>193,521</u>

	P	P
Working		
Rents received		54,000
Less: repairs	3,269	
Less: rates	855	
Less: interest	<u>16,117</u>	(20,241)
Chargeable income from rents		<u>33,759</u>

(e) Calculation of tax payable

	P
Tax on first P120,000	10,875
Tax on next P73,521 at 25%	18,380
Gross tax payable	29,255
Less: withholding tax credit on pension	(29,682)
Less: withholding tax credit on interest	(5,321)
Tax refundable	(5,748)

(f) Calculation of farming loss carried forward

	P
Farming loss brought forward	(28,633)
Current year loss	(86,870)
Less: set off against other income	86,870
Farming loss carried forward	(28,633)

2 Warala Industries (Proprietary) Ltd**(a) Computation of taxable income**

	P	P
Net profit per accounts		1,892,829
Add: depreciation		382,452
Less: capital allowances (ex working 1)	553,082	
Less: profit on sale of shares	600,000	
	<u> </u>	(1,153,082)
Disposal gain (ex working 2)		1,122,199
Taxable income		92,814
		<u> </u>
		1,215,013
Working 1 – capital allowances		
		P
Tax cost of fixed assets at 1 May 2007		3,207,216
Additions during the year		480,000
		<u> </u>
		3,687,216
Capital allowance at 15%		553,082
		<u> </u>
Working 2 – capital gains		
		P
Sale price of shares in Empress Enterprises (Pty) Ltd		380,000
Cost price of shares in Empress Enterprises (Pty) Ltd	-	(200,000)
		<u> </u>
		180,000
Less: 25% allowance		(45,000)
		<u> </u>
		135,000
Less: capital loss brought forward		(42,186)
		<u> </u>
Net disposal gain		92,814

Notes:

- Shares listed on the Botswana Stock Exchange are exempt from capital gains tax.
- The fair value adjustment does not have any bearing on the capital gains tax calculation.

(b) Tax payable/refundable

	P	P
Company tax at 15% on P1,215,013		182,252
Additional company tax at 10%	121,501	
Less: withholding tax paid (Note)	(150,000)	
	<u> </u>	-
		182,252
Less: SAT paid		(240,000)
Refund due		(57,748)
		<u> </u>

Note: the withholding tax credit is limited to the current year's ACT.

Working – dividend	
Dividend declared	P 1,000,000
Withholding tax thereon at 15%	<u>150,000</u>

(c) Minimum SAT payable

	P
31 July 2007	36,450
31 October 2007	36,450
31 January 2008	36,450
30 April 2008	36,450
31 August 2008	<u>36,452</u>
	<u>182,252</u>

Note: the withholding tax paid on dividends is deducted first before calculating the SAT payable.

(d) Annual VAT liability

	Income Statement P	VAT returns P
Sales in Botswana	10,367,821	10,367,821
Sales exported from Botswana	4,883,964	0
Interest received	126,981	–
Profit on sale of shares	600,000	–
Local purchases	(3,378,745)	(3,378,745)
Imported purchases	(6,255,072)	(6,255,072)
Depreciation	(382,452)	–
Interest paid	(45,872)	–
Salaries and wages	(3,218,679)	–
Administrative overheads	(805,117)	(805,117)
Plant and machinery purchased		<u>(480,000)</u>
		(551,113)
Net annual refund claimed at 10%		(55,111)
Refund actually claimed		<u>76,542</u>
Apparent overclaim		<u>21,431</u>

(e) VAT returns

VAT returns must be filed by the 25th of the following month. The exception to this rule is where the 25th of a month falls on a weekend or public holiday in which case the return is required to be submitted on the last working day before the weekend or public holiday.

3 Grainger Industries (Pty) Ltd

(a) Disposal gain or loss

	P	P
Cost of land	200,000	
Indexation (200,000 x 1012.8 – 608.5/608.5)	132,884	332,884
Cost of building	600,000	
Indexation (600,000 x 1012.8 – 608.5/608.5)	398,652	998,652
Cost of improvement	450,000	
Indexation (450,000 x 1012.8 – 715.0/715.0)	187,427	637,427
		1,968,963
Sales value		2,400,000
Disposal gain on land and buildings		431,037
Disposal gain goodwill	700,000	
Less: moveable property allowance (Note)	(175,000)	525,000
Net disposal gain		956,037

Note: the sale of goodwill is considered to be the same as the sale of shares and therefore the 25% moveable property allowance can be claimed.

(b) Balancing charge or allowance

	P	P
Balancing charge on disposal of building (Note 1)		160,000
Tax value of plant and equipment	250,000	
Sales value	200,000	(50,000)
Net balancing charge		110,000

Note

1. The balancing charge on the sale of immovable property is limited to the capital allowances that have been claimed.
2. No profit or gain arises on the sale of stock, accounts receivable and accounts payable which are being sold at book value.

(c) VAT implications

The sale of commercial land and buildings and plant and machinery is liable to VAT in the normal way. But, there is a special provision (s.4(2)) that deals with the sale of a business as a going concern which makes the full amount of the sale price, i.e. in this case P3,900,000 liable to VAT. However, in terms of Paragraph 2(p) of the First Schedule of the VAT Act the transaction can be zero-rated provided certain conditions are met.

The four conditions for zero-rating are:

1. The sale must be from one registered person to another registered person.
2. The sale must be of a business, or part of a business, as a going concern.
3. There must be an agreement in writing signed by both the seller and purchaser.
4. The agreement must be furnished to the Director of VAT within 21 days of the supply taking place.

4 Adam Moleon

(a) Calculation of tax on current remuneration package

Basic salary		P 60,000
Commission		280,000
Company car benefit (320,000 – 200,000) x 15% + 10,000		28,000
Medical aid (not taxable)		–
Taxable income		368,000
Tax payable:		P
First P120,000		10,875
Next P248,000 at 25%		62,000
		72,875

(b) Calculation of tax on proposed remuneration package

	P
Basic salary	240,000
Thirteenth cheque	30,000
Housing benefit (P250 x 8% x 240 sq mtrs)	4,800
Furniture benefit ((40,000 – 15,000) x 10%)	2,500
Medical aid	–
School fees for children	38,000
Car allowance	60,000
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Taxable income	375,300
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Tax payable:	P
First P120,000	10,875
Next P255,300 at 25%	63,825
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	74,700
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(c) Comparison of the two packages

	P
Current remuneration	
Salary and commission	340,000
Company paid medical aid	18,000
Less: rent of house	(96,000)
Less: tax payable	(72,875)
Less: school fees	(38,000)
	<hr/>
	151,125
	<hr/>
Proposed remuneration	P
Salary and thirteenth cheque	270,000
School fees	38,000
Car allowance	60,000
Company paid medical aid	22,000
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	390,000
Less: lease of car	(72,000)
Less: tax payable	(74,700)
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	243,300
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Adam will be substantially better off by accepting the new job even allowing for the higher than normal level of commission earned in the current year.

5 Davis and Molefe Construction (Pty) Ltd

- 1 Payments of damages are deductible if it is a 'necessary concomitant' of the taxpayer's trade. It is considered that there is a risk of mishap with a vehicle in a business that operates a fleet of vehicles. The expenditure is deductible.
- 2 Only expenditure that has actually been incurred can be claimed as a deduction. Provisions for future expenditure cannot be deducted.
- 3 A bad debt in respect of a loan is not deductible. In terms of s.41(1)(h) of the Income Tax Act the amount of the debt must have been brought to account by that person in the ascertainment of his assessable income for any tax year. A loan is not included in income.
- 4 School fees appear at first sight to be domestic expenditure but provided they are paid in terms of an employment contract they are deductible. The school fees become an employment cost.
- 5 Fines and penalties are generally not considered to be in the production of income but in the case of a construction contractor penalties on the late completion of contracts is a normal business expense and is therefore deductible.
- 6 A loan is on capital account and any expenditure associated with it is also considered to be of a capital nature. The exchange loss on the repayment of the loan is not deductible.
- 7 Section 40(1)(c) allows as a deduction any legal expenses incurred in respect of any claim, dispute or action at law arising in the course of carrying on a business. It does not matter that the dispute is in respect of land and therefore capital in nature, it is still deductible.
- 8 VAT that has not been recovered in the company's VAT return can be deducted. See s.41(1)(q).

- 9 Transfer duty on a land transaction is capital and cannot be deducted.
- 10 Compensation paid by a taxpayer that does not create a new asset, creates no long term advantage or enduring benefit, is revenue in nature. This was the approach in ITC 1267 (1977) and so the expenditure is deductible.

	<i>Marks</i>
2 Warala Industries (Proprietary) Ltd	
(a) Working 1	
Tax cost brought forward	0.5
Additions	0.5
Capital allowance	1
Working 2	
Profit on sale of Empress	1
Capital loss brought forward	1.5
25% allowance	1
Omission of Optica	1
Computation	
Net profit per accounts	0.5
Depreciation	0.5
Capital allowances (ex working)	0.5
Profit on sale of shares (including the fair value adjustment)	1
Disposal gain (ex working)	1
	<hr/> 10
(b) Withholding tax on dividend	1
Company tax at 15%	1
Additional company tax at 10%	1
Set-off withholding tax on dividend	2
SAT paid	0.5
Tax refundable	0.5
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(c) Based on net of withholding tax figure	1
31 July 2007	0.5
31 October 2007	0.5
31 January 2008	0.5
30 April 2008	0.5
31 August 2008	1
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(d) Sales in Botswana	0.5
Sales exported from Botswana	1
Interest received	0.5
Profit on sale of shares	0.5
Local purchases	0.5
Imported purchases	0.5
Depreciation	0.5
Interest paid	0.5
Salaries and wages	0.5
Administrative overheads	0.5
Plant and machinery purchased	1
Net annual refund claimed at 10%	0.5
Refund actually claimed	0.5
Apparent overclaim	0.5
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(e) 25th of the month	1
25th falls on a weekend etc	1
	<hr/> 2
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	<i>Marks</i>
3 Grainger Industries (Pty) Ltd	
(a) Tax cost of land including indexation	1
Tax cost of building including indexation	1
Tax cost of improvement including indexation	1.5
Disposal gain on land and buildings	1
Disposal gain on goodwill, net of 25% allowance	2.5
	<u>7</u>
(b) Balancing charge on disposal of building	1
Tax value of plant and equipment	0.5
Sales value	0.5
Net balancing charge	0.5
No profit/gain re remaining (book value) items	0.5
	<u>3</u>
(c) Liable to VAT on full sales price	1.5
Zero-rating	1.5
Both registered persons	0.5
Going concern sale	0.5
Agreement in writing	0.5
Furnished within 21 days	0.5
	<u>5</u>
	<u>15</u>
4 Adam Moleon	
(a) Basic salary	0.5
Commission	0.5
Company car benefit	1
Medical aid	0.5
Tax payable	0.5
	<u>3</u>
(b) Basic salary	0.5
Thirteenth cheque	0.5
Housing benefit	1
Furniture benefit	1
Medical aid	0.5
School fees	0.5
Car allowance	0.5
Tax payable	0.5
	<u>5</u>
(c) Current package	
Salary and commission	0.5
Medical aid	0.5
Rent	1
School fees	1
Tax payable	0.5
Proposed package	
Salary and thirteenth cheque	0.5
School fees/car allowance	0.5
Medical aid	0.5
Car lease	1
Tax payable	0.5
Conclusion	0.5
	<u>7</u>
	<u>15</u>

		<i>Marks</i>
5	Davis and Molefe Construction (Pty) Ltd	
1	Damages to injured pedestrian	1.5
2	Provision for future expenditure	1.5
3	Bad debt re staff loan	1.5
4	School fees to senior employees	1.5
5	Contractual penalty	2
6	Exchange loss loan	1.5
7	Legal fees re land dispute	1.5
8	Irrecoverable VAT	1
9	Transfer duty	1
10	Termination payment re lease	2
		<hr/>
		15
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