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# Answers

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			<i>Marks</i>
<b>1</b>	<b>Vincent Evans</b>		
	<b>(a) Computation of chargeable income from rents</b>		
		<b>P</b>	
	Rents received	420,500	0·5
	Less: mortgage bond interest	153,682	0·5
	council rates	24,637	0·5
	repairs and maintenance	92,481	0·5
	capital allowances (P32,000 x 15%)	4,800	1
		<u>275,600</u>	
	allowable 7/8		1
		<u>(241,150)</u>	
		179,350	
	Less: Assessed loss brought forward	<u>(83,264)</u>	1
	Chargeable income from rents	<u>96,086</u>	<u>5</u>
	Notes		
	1. Capital allowances can be claimed on the air conditioners.		
	2. There are no capital allowances on residential buildings.		
	3. As Vincent's brother resides in the block rent free the deductible costs should be apportioned so that only those costs that are in the production of income are claimed.		
	<b>(b) Computation of disposal gain</b>		
		<b>P</b>	
	Sale of shares in Kingbird (Pty) Ltd	175,000	0·5
	Less: cost of shares	(35,000)	0·5
	Less: legal fees	(12,000)	0·5
		<u>128,000</u>	
	Less: 25% moveable property allowance	<u>(32,000)</u>	1·5
	Chargeable disposal gain	<u>96,000</u>	<u>3</u>
	Notes		
	1. Gains made on the sale of shares that are listed on the Botswana Stock Exchange are exempt.		
	<b>(c) Computation of taxable income from all sources</b>		
	Working 1 – employment income	<b>P</b>	
	Salary	480,000	0·5
	Vehicle benefit	13,000	1
	Housing benefit	56,000	1
	Utilities	36,753	0·5
	School fees	27,000	0·5
	Medical aid	0	0·5
	Pension	0	0·5
	Interest free loan (P360,000 x 15%)	54,000	2
	Chargeable income from employment	<u>666,753</u>	
	Working 2 – interest income	<b>P</b>	
	Bank interest	56,823	0·5
	Less: exempt	(6,000)	1
	Chargeable income from interest	<u>50,823</u>	
		<b>P</b>	
	Employment income	666,753	
	Rental income	96,086	
	Interest income	50,823	
	Dividend income	0	1
	Disposal gains	96,000	1
	Taxable income	<u>909,662</u>	<u>10</u>

**Marks**

**(d) Computation of tax payable**

		P	
First P120,000		10,875	0.5
Next P693,662		173,416	0.5
Disposal gains – first P81,250		6,250	0.5
Disposal gains – next P14,750		<u>2,950</u>	0.5
		193,491	
Less: PAYE credit	146,938		1
Less: withholding tax on interest credit	<u>5,082</u>	<u>(152,020)</u>	1
Net tax payable		<u>41,471</u>	<u>4</u>

**(e) VAT on rental income**

The flats are residential units and residential rent is an exempt supply. Accordingly there is no need to register for VAT or to charge VAT. Equally VAT suffered on inputs cannot be claimed as an input deduction.

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**2 Shoshong Investments**

**(a) Withholding tax paid on dividend**

		P	
Dividend paid		<u>4,000,000</u>	
Withholding tax at 15%		600,000	0.5
ACT brought forward		<u>(194,662)</u>	0.5
Withholding tax paid		<u>405,338</u>	1
			<u>2</u>

**(b) Chargeable gain on sale of property and shares**

		P		P	
<b>Sale of property</b>					
Cost price		3,800,000			
Indexation	(1,043.1/605.4 x 3,800,000) – 3,800,000	<u>2,747,374</u>			0.5
Tax cost		6,547,374			
Sale price		<u>7,500,000</u>	952,626		
Less: rolled over	(Note 1)		<u>(952,626)</u>		2
			0		
<b>Sale of shares</b>					
Sale price of shares		2,871,036			
Cost of shares		<u>(508,739)</u>			
		2,362,297			
Less: moveable property allowance at 25%	(Note 2)	<u>(590,574)</u>	1,771,723		1.5
Less: capital loss brought forward			<u>(270,917)</u>		1
Chargeable gain from disposal of property			<u>1,500,806</u>		<u>5</u>

Notes

- The gain on a sale of immovable property can be rolled over against the cost of a new property provided the property is used in the taxpayer's business and the new property is purchased within one year of the sale of the old property. Rollover relief is limited to the balancing charge.
- A 25% flat allowance can be claimed in respect of gains arising on the sale of shares.

**(c) Taxable income**

	P	P	
Net profit per accounts		3,798,739	
Add: depreciation	478,021		0.5
Add: loss on sale of property	397,210		1
Add: impairment of investment (Note 1)	600,000		1
Add: recoupment of capital allowances	263,792		2
Add: estate agent's commission (Note 2)	50,000		0.5
Add: valuation of properties (Note 2)	48,750	1,837,773	0.5
	<hr/>		
Less: capital allowances	321,076		0.5
Less: profit on sale of shares	78,023		1
Less: fair value adjustment (Note 1)	2,700,000		1.5
Less: dividends received	80,430	(3,179,529)	1.5
	<hr/>	2,456,983	
Chargeable gain on sale of property and shares		1,500,806	2
Taxable income		<hr/> <u>3,957,789</u>	<hr/> <u>12</u>

## Notes

- The fair value adjustment and impairment are accounting concepts and have no relevance for tax purposes.
- Costs relating to the purchase and sale of immoveable property are considered to be of a capital nature.

**(d) Tax refundable**

	P	P	
Ordinary tax at 15%		593,668	0.5
ACT at 10%	395,779		0.5
Withholding tax paid (Note 1)	(405,338)	0	3
		<hr/>	
		593,668	
Less: SAT paid	750,000		1
Less: withholding tax paid on interest	36,291	(786,291)	1
	<hr/>	<hr/>	
Tax refundable		(192,623)	<hr/> <u>6</u>

## Notes

- The withholding tax credit is limited to the amount of the current year ACT.

**(e) VAT on sale of shares and immoveable property**

## Shares

The sale of shares is considered to fall under the definition of a supply of financial services and is therefore exempt from VAT.

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## Immoveable property

The sale of immoveable property, other than residential property, is liable to VAT. However, the seller has the choice of paying either VAT or transfer duty but not both. Where the sale of immoveable property constitutes a going concern the transaction is zero-rated.

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## 3 Joseph Sabone

## (a) Calculation of chargeable income from farming

Working 1 – calculation of balancing allowance

	P	P	
Tax value of farming equipment sold		43,750	
Proceeds on sale of farming equipment		<u>(20,000)</u>	
Balancing allowance		<u>23,750</u>	1

Working 2 – calculation of capital allowances

	P	P	
Tax cost of farming equipment	163,500		
Less: cost of equipment sold	<u>(65,500)</u>		
Cost at 30 June 2008	<u>98,000</u>		1
Capital allowances at 15%		14,700	1
Tax cost of motor vehicles	385,000		
New truck	<u>120,000</u>		
Cost at 30 June 2008	<u>505,000</u>		1
Capital allowances at 25%		<u>126,250</u>	1
Total capital allowances		<u>140,950</u>	

	P	P	
Sales of cattle		2,408,639	
Sales of meat		587,532	
Personal consumption – 23 x P800		18,400	2
Closing stock – 1,529 head x P430		<u>657,470</u>	1
		3,672,041	
Purchases of cattle	1,426,793		
Purchases of feed	381,736		
Transport and selling costs	113,944		
Expenditure on building a dam	92,886		1
Wages	149,273		
Fencing	84,902		1
Administrative expenses	75,412		
Balancing allowance	23,750		
Capital allowances	140,950		
Opening stock – 2,867 x P430	<u>1,232,810</u>	<u>(3,722,456)</u>	1
Chargeable loss from farming		<u>(50,415)</u>	<u>11</u>

Notes

- The deduction of capital expenditure such as dam building and fencing is specifically allowed in the Third Schedule of the Income Tax Act.

## (b) Calculation of taxable income

		P	
Income from other sources		86,200	0.5
Chargeable loss from farming	(Note 2)	<u>(43,100)</u>	<u>1.5</u>
Taxable income		<u>43,100</u>	<u>2</u>

Notes

- A farming loss brought forward can only be set-off against future chargeable income from farming. A farming loss brought forward cannot be set-off against other income.
- The deduction of a current year farming loss is limited to 50% of chargeable income.

**Marks**

**(c) Calculation of carry forward loss**

	<b>P</b>	
Assessed loss brought forward	53,792	0.5
Add: current year loss	50,415	0.5
Less: loss utilised	<u>(43,100)</u>	<u>1</u>
Assessed loss to be carried forward	<u>61,107</u>	<u>2</u>
		<b><u>15</u></b>

**4 Cowans Manufacturers**

**(a) Rollover relief**

300 and 500 ton press

	<b>P</b>	
Cost of 500 ton press	375,000	
Allowances	<u>(337,500)</u>	
Tax value	37,500	
Sale price	<u>(120,000)</u>	
Balancing charge	<u>(82,500)</u>	1
Application of rollover relief:		
	<b>P</b>	
Cost of 300 ton press	545,000	
Rollover relief – balancing charge	<u>(82,500)</u>	
Tax cost	<u>462,500</u>	<u>1</u>
		<u>2</u>

Note

Rollover relief in respect of capital allowances only applies to plant and machinery (which expression includes motor vehicles). It does not apply to land and buildings. The term rollover relief when applied to land and buildings refers to relief from capital gains tax.

**(b) Balancing charges and allowances**

	<b>P</b>	<b>P</b>	
Saloon car – cost	200,000		
– allowances	<u>(150,000)</u>		
	50,000		
– sale price	<u>(75,000)</u>	(25,000)	0.5
Computers – cost	22,000		
– allowances	<u>(16,500)</u>		
	5,500		
– sale price	<u>0</u>	5,500	0.5
Land & buildings – cost	400,000		
– allowances	<u>(60,000)</u>		
	340,000		
– sale price	<u>(950,000)</u>	(60,000)	<u>1</u>
Net balancing charge		<u>(79,500)</u>	<u>2</u>

Note

The balancing charge in respect of land and buildings is limited to the allowances granted.

**(c) Capital allowances calculation****COST**

	Land & buildings P	Furniture P	Machinery P	Vehicles P	TOTAL P	
At 1 October 2007	400,000	78,254	2,159,128	387,232	3,024,614	
Additions	2,750,000	18,500	579,500	165,000	3,513,000	2
Disposals	(400,000)	0	(397,000)	(200,000)	(997,000)	1.5
At 30 September 2008	<u>2,750,000</u>	<u>96,754</u>	<u>2,341,628</u>	<u>352,232</u>	<u>5,540,614</u>	
<b>ALLOWANCES</b>						
At 1 October 2007	60,000	36,628	1,364,732	142,974	1,604,334	
Charge	68,750	9,675	351,244	88,058	517,727	2
Disposals	(60,000)	0	(354,000)	(150,000)	(564,000)	1.5
At 30 September 2008	<u>68,750</u>	<u>46,303</u>	<u>1,361,976</u>	<u>81,032</u>	<u>1,558,061</u>	
Net tax value at 30 September 2008	<u>2,681,250</u>	<u>50,451</u>	<u>979,652</u>	<u>271,200</u>	<u>3,982,553</u>	2
						<u>9</u>

**(d) VAT implications**

All of the above sales of capital assets are liable to 10% VAT. The two possible exceptions are the saloon car – if input tax was denied on purchase then there is no requirement to charge VAT when it is sold. The sale of immovable property can be zero-rated if the sale constitutes the sale of a going concern business.

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15**5 Southern Financial Services****(a) Categorisation of output**

		Exempt P	Zero-rated P	Standard P	Tax P	
Commission non-residents	(Note 1)	–	76,244	–	–	1.5
Commission residents		–	–	126,268	12,627	1
Residential rent received	(Note 2)	5,000	–	–	–	1
Sale of furniture		–	–	15,000	1,500	1
Interest received	(Note 3)	96,828	–	–	–	1
Fees residents		–	–	184,280	18,428	0.5
Credit notes received	(Note 4)	–	–	4,680	468	1.5
Settlement discount	(Note 4)	–	–	2,180	218	1
Sale of saloon car		–	–	–	–	1
Office rent		–	–	21,500	2,150	0.5
Insurance recovery		–	–	42,180	4,218	1
		<u>101,828</u>	<u>76,244</u>	<u>396,088</u>	<u>39,609</u>	<u>11</u>

## Notes

1. Revenue earned from non-residents is zero-rated.
2. Residential rent is an exempt supply.
3. Interest received is a financial service and is therefore exempt.
4. Credit notes and settlement discounts are output adjustments.

	P	P	<i>Marks</i>
<b>(b) Calculation of tax payable</b>			
Output tax as above		39,609	1
Less: input tax office expenses (18,425/11)	1,675		1
Less: tax on capital expenses (220,000/11) (Note 1)	20,000		1
Less: input tax on interest paid (Note 2)	0		0.5
Less: input tax on salaries (Note 3)	0	(21,675)	0.5
	<u>0</u>	<u>17,934</u>	<u>4</u>

Vat payable

Notes

1. VAT on capital expenditure is deductible.
2. Interest is an exempt supply and VAT is not charged thereon.
3. There is no VAT on salaries.

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