

Fundamentals Level – Skills Module

# Taxation (Botswana)

Monday 1 June 2009

**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 2–4.

**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 Accountants

**ACCA**



# 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 2007/2008 and 2008/2009 tax years**

Resident companies	On taxable income
Standard rate	15%
Additional company tax	10%
Manufacturing company rate	5%
Additional company tax	10%

**Resident individuals**

P0 – P30,000	P0 +	0%
P30,000 – P60,000	P0 +	5%
P60,000 – P90,000	P1,500 +	12.5%
P90,000 – P120,000	P5,250 +	18.75%
P120,000 +	P10,875 +	25%

**Non-resident individuals, trusts and estates**

P0 – P60,000	P0 +	5%
P60,000 – P90,000	P3,000 +	12.5%
P90,000 – P120,000	P6,750 +	18.75%
P120,000 +	P12,375 +	25%

**Capital gains – individuals**

P0 – P12,500	P0 +	0%
P12,500 – P43,750	P0 +	5%
P43,750 – P62,500	P1,562 +	10%
P62,500 – P81,250	P3,437 +	15%
P81,250 – P100,000	P6,250 +	20%
P100,000 +	P10,000 +	25%

**Capital gains – companies**

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

**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 the taxable employment income before housing benefit

**Individual's furniture benefit**

10% of the 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%

**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.

	<b>1982</b>	<b>1983</b>	<b>1984</b>	<b>1985</b>	<b>1986</b>	<b>1987</b>	<b>1988</b>
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
	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>
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
	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
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>	
January	683.2	721.3	779.2	877.4	942.9	1022.2	
February	689.0	728.6	781.7	884.0	948.5	1034.4	
March	692.2	735.8	783.8	891.5	949.5	1043.1	
April	701.4	743.6	789.4	901.4	957.7	1064.7	
May	705.8	754.0	801.4	909.6	968.1	1085.0	
June	715.0	721.3	813.2	915.0	974.5		
July	714.5	758.9	821.2	918.6	988.5		
August	698.0	761.3	834.8	924.2	991.2		
September	707.0	765.7	842.3	930.8	994.1		
October	715.9	770.7	857.1	936.4	1004.3		
November	717.9	772.4	859.7	935.5	1007.2		
December	718.9	774.9	863.1	936.4	1012.8		

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Question 1 begins on page 6.**

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

1 Vincent Evans is the managing director of Tawana Resources (Proprietary) Limited. His sources of income are:

- remuneration from Tawana Resources
- rental income from residential block of flats
- interest income from bank
- dividend income from investments
- capital gains on sale of investments

He is also a passive partner in a farming venture.

The following are the details of Vincent's earnings and benefits for the year ended 30 June 2008:

<b>Tawana Resources</b>		<b>P</b>
Salary		480,000
Company vehicle	Cost	220,000
Company house	Rateable value	560,000
Utilities		36,753
School fees		27,000
Medical aid company contribution		28,450
Pension company contribution		48,000

In addition Vincent has an interest-free loan from the company. The average balance of the loan during the year was P360,000. A reasonable interest rate is 15% per annum.

<b>Rental income</b>	<b>P</b>
Rents received	420,500
Mortgage bond interest	153,682
Council rates	24,637
Repairs and maintenance	92,481

There are eight flats. Vincent allows his brother to occupy one of the flats rent free.

Air conditioners have been installed in all the flats at a cost of P32,000.

There is a rental loss brought forward of P83,264.

<b>Interest income</b>	<b>P</b>
Bank interest	56,823

  

<b>Dividend income</b>	<b>P</b>
Listed investments	37,831
Unlisted investments	200,000

<b>Capital gains</b>	<b>Cost P</b>	<b>Sale P</b>
Proceeds on sale of shares in Botswana Timbers Ltd, a company listed on the Botswana Stock Exchange.	27,000	86,500
Proceeds on sale of shares in Kingbird (Pty) Ltd, a private company.	35,000	175,000

P12,000 was paid to lawyers in respect of the sale of shares in Kingbird (Pty) Ltd

<b>Withholding tax</b>	<b>P</b>
Salary	146,938
Bank interest	5,082
Dividends	35,675

**Required:**

**In respect of Vincent Evans for the tax year ended 30 June 2008:**

- (a) Calculate the chargeable income from rents. (5 marks)
- (b) Calculate the chargeable disposal gain, if any, on the shares disposed of. Give explanations for your answers. (3 marks)
- (c) Calculate his taxable income from all sources, indicating by the use of '0' any items not requiring adjustment. (10 marks)
- (d) Calculate the net tax payable. (4 marks)
- (e) Comment on the value added tax (VAT) treatment of the rental income. (3 marks)

**(25 marks)**

2 The following is the income statement of Shoshong Investments (Proprietary) Limited for the year ended 31 December 2008.

	P
<b>Income</b>	
Sales	26,839,471
Cost of sales	(19,084,273)
	<u>7,755,198</u>
Profit on sale of shares	78,023
Increase in fair value of assets	2,700,000
Interest received	362,910
Dividends received	80,430
	<u>10,976,561</u>
<b>Expenses</b>	
Depreciation	478,021
Salaries and wages	1,730,924
Estate agent's commission purchase of property	50,000
Operating costs	3,872,917
Impairment of investment in associated company	600,000
Valuation of properties	48,750
Loss on sale of immoveable property	397,210
	<u>7,177,822</u>
Net profit for the year	<u>3,798,739</u>

The following additional information is provided:

1. The loss on immoveable property was calculated as:

	P
Sale price – March 2008	7,500,000
Cost price – September 2001	(3,800,000)
Depreciation	402,790
Fair value adjustment	(4,500,000)
Loss on sale	<u>(397,210)</u>

2. Capital allowances of P263,792 have been claimed against the property up to the date of sale.

3. The total claim for capital allowances for the year ended 31 December 2008 is P321,076.

4. Another immoveable property costing P9,000,000 was purchased in August 2008 and was used in the taxpayer's business.

5. There is a capital loss of P270,917 brought forward.

6. The profit on the sale of shares in Vurango (Pty) Ltd was calculated as:

	P
Sale price – October 2008	2,871,036
Cost price – March 1999	(508,739)
Fair value adjustment	(2,284,274)
Profit on sale	<u>78,023</u>

7. A dividend of P4,000,000 was paid during the year. The ACT brought forward from the prior year was P194,662.

8. Self Assessment Tax (SAT) of P750,000 has been paid in respect of the company's tax liability for the year ended 31 December 2008.
9. Withholding tax of P36,291 was deducted from bank interest received and P12,065 from dividends received.

**Required:**

**In respect of Shoshong Investments (Pty) Ltd for the year ended 31 December 2008:**

- (a) Calculate the withholding tax that was paid in respect of the dividend paid. (2 marks)
- (b) Calculate the chargeable gain arising on the sale of the immovable property and the shares, applying rollover relief where applicable. (5 marks)
- (c) Calculate the taxable income of Shoshong Investments (Pty) Ltd. (12 marks)
- (d) Calculate the tax payable/refundable. (6 marks)
- (e) Comment on the VAT treatment on the sale of shares and immovable property. (5 marks)

**(30 marks)**

3 Joseph Sabone is a cattle farmer and he provides you with the following information in respect of his farming activities for the tax year ended 30 June 2008.

	P
Sales of cattle	2,408,639
Sales of meat	587,532
Proceeds on sale of farming equipment	20,000
Purchases of cattle	1,426,793
Purchases of feed	381,736
Transport and selling costs	113,944
Expenditure on building a dam	92,886
Wages	149,273
Fencing	84,902
Purchase of truck	120,000
Administrative expenses	75,412

The stock of cattle was calculated as follows:

	No.
Opening stock	2,867
Purchased	1,628
Natural increase	128
Deaths	(186)
Sales	(2,885)
Personal consumption	(23)
Closing stock	<u>1,529</u>

The standard tax value for cattle is P430 per head. The market value is P800 per head.

The details of the tax written down values of the assets at 1 July 2007 are:

	Cost P	Allowances P	Tax value P
Motor vehicles	385,000	82,125	302,875
Farming equipment	163,500	72,500	91,000

The cost of the farming equipment that was sold was P65,500 and the tax value was P43,750

Joseph's tax loss brought forward from the 2007 tax year is P53,792.

Joseph has other taxable income for the year ending 30 June 2008 amounting to P86,200.

**Required:**

**In respect of Joseph Sabone for the tax year ended 30 June 2008 calculate:**

- (a) his chargeable income from farming; (11 marks)
- (b) his taxable income; (2 marks)
- (c) the tax loss to be carried forward. (2 marks)

**(15 marks)**

4 The capital transactions of Cowans Manufacturers (Proprietary) Ltd for the year ended 30 September 2008 are:

	P
PURCHASES – cost price	
Cutting machine	90,000
300 ton press	545,000
Drilling machine	27,000
Truck	165,000
Furniture	18,500
Land & buildings – Gaborone West	2,750,000
	3,595,500
SALES – sales price	
500 ton press	120,000
Saloon car	75,000
Computers	0
Land & buildings – Broadhurst	950,000
	1,145,000

1. The purchase of the 300 ton press was specifically to replace the 500 ton press which was considered to be the wrong size for the required function.
2. The purchase of land and buildings in Gaborone West was specifically to replace the land and buildings in Broadhurst.
3. The capital allowance position at 1 October 2007 is as follows:

	Land & buildings	Furniture	Machinery	Vehicles	TOTAL
	P	P	P	P	P
Cost	400,000	78,254	2,159,128	387,232	3,024,614
Capital allowances	60,000	36,628	1,364,732	142,974	1,604,334

4. Details of the cost and capital allowances of the assets which were sold are:

	Cost	Allowances	Tax value
	P	P	P
500 ton press	375,000	337,500	37,500
Saloon car	200,000	150,000	50,000
Computers	22,000	16,500	5,500
Land & buildings	400,000	60,000	340,000

**Required:**

**In respect of the tax year ended 30 September 2008:**

- (a) Calculate the rollover relief that can be claimed, if any. (2 marks)
- (b) Calculate the balancing charges and allowances arising on the sale of assets. (2 marks)
- (c) Calculate the capital allowance. (9 marks)
- (d) Comment on the VAT implications of the sale of capital assets. (2 marks)

**(15 marks)**

- 5 The following are the transactions for July 2008 for Southern Financial Services (Proprietary) Ltd. The amounts are stated inclusive of Value Added Tax (VAT) where applicable.

	P
REVENUE	
Commission receivable invoiced to non-residents	76,244
Commission receivable invoiced to residents	138,895
Residential rent received	5,000
Proceeds on sale of furniture	16,500
Interest received	96,828
Fees receivable invoiced to residents	202,708
Credit notes received from suppliers	5,148
Settlement discount received	2,398
Proceeds on sale of saloon car	28,000
Office rent received	23,650
Insurance recovery	46,398
	P
EXPENDITURE	
Sundry office expenditure	18,425
Interest paid	53,784
Salaries	105,839
Capital expenditure	220,000

**Required:**

- (a) **Categorise the above revenue transactions into the following categories and state the output taxable amount and the tax charged on them:**
- (i) **exempt supplies;**
  - (ii) **zero-rated supplies;**
  - (iii) **standard supplies.**
- (11 marks)
- (b) **Calculate the VAT payable or refundable for the tax period of July 2008, giving a brief reason where there is no input tax on expenses.**
- (4 marks)

**(15 marks)**

**End of Question Paper**