
Answers

Section A

1 The correct answer is P577,650

	P
Salary	550,000
Net rental income	27,650
Medical aid refunds	0
Building society interest	0
Mileage claims	0
	<u>577,650</u>

Company contributions and interest from a bank or a building society are specifically excluded from taxable income. Reimbursements of costs are not included in taxable income.

2 The correct answer is 3 March 2020

The time of supply is the earlier of cash received or invoice issued.

3 The correct answer is P54,747

	P
Sales commission	0
Administration fees	18,629
Technical fees	36,118
Rent of premises	0
	<u>54,747</u>

Deductions of tax from payments to non-residents in respect of interest, royalties and management and consulting fees are a final charge to tax.

4 The correct answer is P50,000

	P
Employer's provident fund	0
Voluntary personal pension scheme	50,000
Voluntary employer's savings scheme	0
	<u>50,000</u>

No deductions for contributions to provident funds and savings schemes.

5 The correct answer is (2) and (4) only

In order to be liable to tax in Botswana, the international company must be carrying on business in Botswana.

6 The correct answer is P2,594,113

	P
Cost	1,750,000
Indexation	155,887
(1,750,000 x 1892.6/1737.8)	1,905,887
Sale price	4,500,000
	<u>2,594,113</u>
Rollover relief	0
Net disposal gain	<u>2,594,113</u>

Rollover relief cannot be claimed because the new property was purchased before the sale of the old property.

7 The correct answer is P47,696

	P
Tax at 22% on 3,472,900	764,038
Less: SAT paid	(650,000)
	<u>114,038</u>
Less: credits	
Bank interest received	(28,926)
Dividends received	0
Commission received	(37,416)
Exempt interest received	<u>0</u>
SAT still to be paid	<u>47,696</u>

Credits to include SAT and various withholding taxes.

8 The correct answer is P13,683

	P
Discount on goods exported	0
Price reduction on goods sold locally	36,819
Goods returned by local customers	77,208
Residential rent received	<u>0</u>
Post-sale adjustment	<u>114,027</u>
VAT on post-sale adjustment – 12% x 114,027	13,683

VAT on the credit note must mirror VAT on the original invoice.

9 The correct answer is P842,054

	P
Original cost of machinery (839,903 + 1,166,084)	2,005,987
Rollover relief granted	(467,228)
Annual capital allowances claimed (125,985 + 104,828)	<u>(230,813)</u>
	1,307,946
Sales price	<u>2,150,000</u>
Balancing charge	<u>842,054</u>

Rollover relief previously granted must be deducted in calculating the subsequent sale of the asset.

10 The correct answer is (2) and (4) only

Tax avoidance is a deliberate action to create rights and obligations which do not normally exist with a view to reducing a tax liability.

11 The correct answer is P505,000

	P
Royalties paid to a resident	150,000
Marketing fees paid to a non-resident (25,500/15%)	170,000
Management fee paid to a non-resident	0
Interest paid to a resident	<u>185,000</u>
	<u>505,000</u>

The deductibility of expenses liable to WHT is only affected in the case of payments to non-residents. Payments to residents are always deductible whether the WHT has been paid or not.

12 The correct answer is P59,820

	Cost P
100 shares	60,000
20 bonus shares	0
5 shares	3,250
	<u>63,250</u>
125 shares	
Cost per share	<u>506</u>
Sale of 30 shares	75,000
Less: cost of 30 shares	(15,180)
Gross disposal gain	<u>59,820</u>

The cost must first be determined when calculating a disposal gain.

13 The correct answer is P364,423

	P
Interest received	579,384
Dividends received	723,061
	<u>1,302,445</u>
Less: expenditure (483,229 x (579,384/1,302,445))	(214,961)
Less: dividends received	(723,061)
	<u>364,423</u>

The expenditure deduction must be proportionate to the assessable income earned. Dividends received do not constitute assessable income and so some of the expenditure incurred to earn that income must be disallowed.

14 The correct answer is P489,056

	P
Total commission income	854,620
Less: motor vehicle expenses	(176,935)
Less: hotel accommodation	(73,629)
Less: rental of property	(60,000)
Less: capital allowances, car (350,000 x 25%)	(87,500)
Add: motor vehicle benefit (10,000 + (150,000 x 15%))	32,500
Chargeable income	<u>489,056</u>

A self-employed person can claim all expenses incurred in the production of his/her income.

15 The correct answer is P1,591,083

	P
Preliminary taxable income	2,386,117
Inventory	(367,230)
Investments	0
Non-current assets	0
Accounts receivable	(427,804)
	<u>1,591,083</u>

Inventory impairments are specifically deductible. An impairment of accounts receivable can also be claimed.

2 marks each

30

1 Lesedi Products (Pty) Ltd**(a) Value added tax (VAT) calculation**

	Notes	Standard rated P	Zero rated P	Exempt P	Non-taxable P	
Outputs						
Sales		1,472,972				0·5
Proceeds on sale of single cab bakkie	1	157,000				1
Commission received	2	48,206				0·5
Impaired trade receivable recovered	3				17,573	1
Technical fees received	4		20,000			0·5
		<u>1,678,178</u>	<u>20,000</u>	<u>0</u>	<u>17,573</u>	
Inputs						
Purchases – local		376,100				0·5
Purchases – imported		569,226				0·5
Credit notes issued for sales returns		12,739				0·5
Depreciation					65,182	0·5
Discount allowed for early payment		8,628				0·5
Salaries and wages					217,030	0·5
Pension fund contribution					32,555	0·5
Provision for future costs					30,000	0·5
Interest on overdraft				18,729		0·5
		<u>966,693</u>	<u>0</u>	<u>18,729</u>	<u>344,767</u>	
Excess of outputs over inputs		<u>711,485</u>				
VAT thereon at 12%		<u>85,378</u>				
						<u>8</u>

Tutorial notes:

1. The proceeds on sale of the single cab bakkie are liable to VAT.
2. Even though life insurance is an exempt supply, any commission received on the sale is still liable to VAT.
3. An input has not yet been claimed for the irrecoverable debt and so there is no output.
4. Fees received from non-residents are zero rated.

(b) If the return and payment are submitted late, the penalties would be:

(i) Late return – 10% per month of VAT payable.	1
(ii) Late payment – 10% per month of VAT payable.	1
	<u>2</u>
	<u>10</u>

2 Kamanga Communications (Pty) Ltd

(a) Withholding tax (WHT) payable

	Payment P	WHT P	
Payments to non-residents			
Rental of IT equipment and software	276,118	41,418	0.5
Loan guarantee fees	42,000	6,300	0.5
Insurance premiums	582,031	0	0.5
Marketing fees	86,229	12,934	0.5
Payments to residents			
Interest paid to lender	142,996	14,300	0.5
Royalties	54,287	0	0.5
Rental of commercial premises	354,603	17,730	0.5
Brokerage	92,020	9,202	0.5
		<u>101,884</u>	<u>4</u>

(b) Deduction disallowed if WHT not paid

	P	
Rental of IT equipment and software	276,118	1
Loan guarantee fees	42,000	1
Marketing fees	86,229	1
	<u>404,347</u>	<u>3</u>

(c) Purpose of withholding tax

(i) Non-residents

Most countries consider payments of interest, royalties and dividends to be from a local source of income. Accordingly, the recipients are liable to tax in the paying country but because of the difficulties of subjecting foreign persons to tax in the local country, the tax is to be withheld by the payer. Tax withheld is then considered to be a final charge to tax.

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(ii) Residents

Withholding tax imposed on residents is usually a means of receiving the tax quicker but also is usually imposed on those items of income which are susceptible to tax evasion.

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3 Marshall Supplies (Pty) Ltd

(a) General deduction formula

A taxpayer is entitled to deduct certain expenses from his/her assessable income in order to arrive at taxable income. The foundation for such deductions is contained in the 'general deduction formula' which lists the following criteria:

1

- (i) expenditure must be wholly, exclusively and necessarily incurred
- (ii) by the taxpayer
- (iii) during the tax year
- (iv) in the production of assessable income.

0.5

0.5

0.5

0.5

3

Tutorial note: *In practice, the general deduction formula covers the majority of business expenditure.*

(b) Specific deductions

In addition, there are specific deductions which are intended to enlarge the general deduction formula. Specific deductions are those deductions which would not normally qualify under the general deduction formula.

E.g. capital allowances and irrecoverable debts.

0.5 per example, maximum

1

1

2**(c) Claims for tax deduction**

- (i) Impairment of intangible assets – any impairment does not meet the requirements of the general deduction formula since no expenditure has been incurred.

0.5

Therefore one must look to the specific deductions, but there is no deduction for impairment of intangible assets. A deduction cannot be claimed.

0.5

- (ii) Impairment of trade receivables – these cannot be claimed under the general deduction formula because an irrecoverable debt does not constitute 'expenditure incurred'.

0.5

However, there is a specific section (41(1)(j)) of the Income Tax Act which allows for the deduction of doubtful debts. A deduction can be claimed.

0.5

- (iii) Inventory losses – inventory losses cannot be claimed under the general deduction formula because such losses do not constitute 'expenditure incurred'.

0.5

Inventory is usually shown as part of cost of sales and the excess of the value at the beginning of the year compared with its value at the end of the tax year can be claimed as a specific deduction.

0.5

In valuing inventory, any amount lost due to damage, deterioration, obsolescence or other cause can be deducted.

0.5

- (iv) Interest on bank overdraft – can, in certain cases, be claimed under the general deduction formula. However, there is a specific deduction which covers all cases including interest which is of a capital nature or is not in the production of income.

0.5

New legislation now limits the interest deduction to 30% of tax earnings before interest, tax, depreciation and amortisation (EBITDA) in respect of groups.

0.5

However, since Marshall Supplies (Pty) Ltd is not a member of a group, the legislation does not apply and the interest would be deductible in full.

0.5

510**4 Tau Holdings Ltd****(a) Chargeable disposal gains**

	P	P	
1. Sale of patent	350,000		0.5
Less: cost of patent	(10,000)		0.5
	<u>340,000</u>		
Less: 25% movable property allowance	(85,000)	255,000	1
2. Sale of goodwill	276,050		0.5
Less: 25% movable property allowance	(69,013)	207,037	1
	<u>80,000</u>		
3. Sale of debentures	(100,000)		0.5
Less: cost of debentures	<u>(20,000)</u>		0.5
	0	(20,000)	1
4. Sale of shares in Sheridan Equipment Ltd			
Sale of 5,000 shares	842,675		0.5
Cost of 5,000 shares (5,000 x 106)	(530,000)		0.5
	<u>312,675</u>		
Less: 25% movable property allowance	(78,169)	234,506	1
		<u>676,543</u>	
Less: capital loss brought forward		(362,817)	1
Chargeable disposal gain		<u>313,726</u>	

Working: Sheridan Equipment Ltd

	P	
Purchased	25,000	
Cost	2,650,000	
Cost per share	106	0.5
		<u>9</u>

(b) Carry forward of capital loss

A capital loss can be carried forward for set-off against capital gains for one year.

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5 Tlokweng Distributors (Pty) Ltd (TDL)

(a) Taxable income before any interest restriction

Working: balancing adjustment

	P	
Cost of assets	460,104	0.5
Capital allowances claimed to 30 June 2019	(148,294)	0.5
Tax written down value	311,810	
Sales proceeds	(200,000)	0.5
Balancing allowance	<u>111,810</u>	
Profit before tax	P	P
		115,818
Add: administration expenses	0	0.5
Add: salaries and wages	0	0.5
Add: amortisation	49,628	0.5
Add: depreciation	179,226	0.5
Add: impairment of investments	200,000	0.5
Add: loss on sale of non-current assets	51,373	480,227
		0.5
Less: capital allowances	226,802	0.5
Less: balancing allowance	111,810	0.5
Less: dividends received	61,004	(399,616)
		0.5
Taxable income (before interest restriction)	<u>196,429</u>	
		<u>6</u>

(b) Calculation of tax-EBITDA

	P	
Taxable income as above	196,429	0.5
Add: interest paid (106,273 + 286,135)	392,408	1
Less: interest received	(78,229)	1
Add: capital allowances	226,802	0.5
Tax-EBITDA	<u>737,410</u>	
		<u>3</u>

(c) Calculation of interest restriction

	P	
Net interest (392,408 – 78,229)	314,179	1
Restricted to 30% tax-EBITDA (30% x 737,410)	221,223	1
Interest disallowed	<u>92,956</u>	
		<u>2</u>

Marks

(d) Calculation of taxable income after interest restriction

	P	
Taxable income before interest restriction	196,429	0.5
Add: interest disallowed	92,956	0.5
Taxable income after interest restriction	<u>289,385</u>	
		<u>1</u>

Tutorial note: TDL is part of a group and therefore it cannot claim exemption from the interest restriction.

(e) Rationale

The rationale behind the new legislation is that the interest deduction should be linked to economic activity or, put another way, is determined by the profitability of the enterprise before the impact of interest. It is possible with groups to introduce debt into an enterprise and thereby incur interest the purpose of which is purely to shift profits to another jurisdiction. Base erosion profit shifting (BEPS) 4 and the interest restriction aims to counter such profit shifting.

3
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6 Agnes Sanga

(a) Partnership chargeable income

	P	P	
Partnership loss per accounts		(246,612)	
Add: administration expenses	0		0.5
Add: salaries and wages	0		0.5
Add: depreciation	56,228		0.5
Add: interest on partners' capital accounts	38,448		1
Add: partners' drawings	172,562		0.5
Add: partners' house rent	120,000		0.5
Add: partners' salaries	600,000		0.5
Add: value added tax (VAT) penalties	27,073	1,014,311	1
Less: capital allowances	83,926		0.5
Less: obsolete inventory	267,053	(350,979)	1
Chargeable income from partnership		<u>416,720</u>	
Agnes 50% share		<u>208,360</u>	0.5
			<u>7</u>

(b) Net disposal gain

	P	
Gross gain on East Ltd shares: held more than one year (exempt)	<u>0</u>	<u>1</u>

(c) Taxable income from all sources

	P	P	
Interest received from a bank		0	0.5
Interest received from Agnes' sister		19,062	0.5
Management fees		120,000	0.5
Net rental income	79,261		0.5
Less: rental loss brought forward	<u>(42,839)</u>	36,422	0.5
		<u>175,484</u>	
Partnership chargeable income		208,360	0.5
Car benefit ((10,000 – 0) + (15% x 35,000))		15,250	1.5
Net disposal gain (exempt)		0	0.5
Taxable income		<u>399,094</u>	
			<u>5</u>

			<i>Marks</i>
(d) Tax payable			
	P	P	
First 144,000		13,050	
Next 255,094 (399,094 – 144,000) x 25%		<u>63,774</u>	
		76,824	
Less: withholding tax (WHT) interest – bank	0		0·5
Less: WHT interest – sister	1,906		0·5
Less: WHT rental	<u>5,000</u>		0·5
		<u>(6,906)</u>	0·5
Tax payable		<u>69,918</u>	
			<u>2</u>
			<u>15</u>