

Fundamentals Level – Skills Module

Taxation (Botswana)

Tuesday 2 June 2015



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Rates of tax and tables are printed 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.

Do NOT record any of your answers on the exam paper.

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 in Section B.

TAX RATES AND ALLOWANCES

The following rates of tax and allowances are to be used when answering the questions.

**Rates of tax
2014/2015 tax year**

Resident companies	On taxable income
Standard rate	22%
Manufacturing company rate	15%

Resident individuals

PO – P36,000		PO +	0%
P36,001 – P72,000		PO +	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

PO – P72,000		PO +	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

PO – P18,000		PO +	0%
P18,001 – P72,000		PO +	5%
P72,001 – P108,000	P2,700	+	12.5%
P108,001 – P144,000	P7,200	+	18.75%
P144,001 +	P13,950	+	25%

Capital gains – companies

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

Value added tax (VAT) rate	12%
-----------------------------------	-----

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

	Residents	Non-residents
Interest	10%	15%
Dividends	7.5%	7.5%
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	2013	2014
January	1223·2	1320·0	1436·1	1544·3	1611·2
February	1225·4	1330·2	1440·0	1546·9	1618·7
March	1234·6	1338·9	1446·5	1555·4	1624·3
April	1256·2	1359·0	1460·4	1565·6	1637·1
May	1268·6	1373·6	1480·0	1570·2	1641·0
June	1285·3	1386·4	1487·3	1573·8	1645·6
July	1289·7	1380·6	1492·1	1576·7	1647·5
August	1290·6	1403·4	1496·7	1580·4	1652·1
September	1297·9	1409·0	1508·9	1584·3	1654·8
October	1300·6	1415·0	1515·4	1587·9	
November	1304·2	1424·0	1530·2	1593·5	
December	1309·1	1428·8	1534·8	1598·1	

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet. Each question is worth 2 marks.

- 1 Moraki received the following amounts of investment income in addition to his annual salary of P500,000.

	Gross income	Tax withheld
	P	P
Interest received from a bank	46,830	4,683
Interest received from Bond Retailers (Pty) Ltd in respect of a loan	157,852	15,785
Interest received from a building society	28,664	2,866
Dividends received from companies listed on the Botswana Stock Exchange (BSE)	86,270	6,470

What is Moraki's taxable income?

- A P733,346
 - B P819,616
 - C P657,852
 - D P642,067
- 2 **Which of the following assets are exempt from capital gains tax?**
- (1) Bonds issued by the Government of Botswana
 - (2) Unit trusts
 - (3) Immoveable property owned by an approved provident fund
 - (4) Plant and machinery in respect of which capital allowances have been granted
- A 1 and 2
 - B 2 and 4
 - C 3 and 4
 - D 1 and 4
- 3 Lasertech (Pty) Ltd submitted its value added tax (VAT) return for December 2014 on 27 January 2015. The net VAT liability due to BURS in respect of December 2014 was P10,000 and payment of the full amount was also made on 27 January 2015.

What is the penalty payable by Lasertech (Pty) Ltd in respect of the late filing of its VAT return for December 2014?

- A P1,000 penalty
 - B P200 penalty
 - C P150 penalty
 - D P100 penalty
- 4 **Which of the following are the necessary conditions for a company to be allowed to claim a deduction for tax purposes in respect of a bad debt?**
- (1) The debt must have been included in income either in the current year or prior year
 - (2) The debt must be more than one year old
 - (3) The debt must be irrecoverable
 - (4) The debt must be due to the taxpayer
- A 1, 2 and 4
 - B 1, 2 and 3
 - C 1, 3 and 4
 - D 2, 3 and 4

5 Which of the following are disallowable expenses in computing an individual's chargeable income from a business?

- (1) Depreciation of assets used in the trade
- (2) Private expenditure
- (3) Any tax charged under the Income Tax Act
- (4) Any expense of a capital nature

- A** 1 and 3 only
- B** 1, 2, 3 and 4
- C** 2 and 3 only
- D** 2 and 4 only

6 Lindiwe purchased shares in Standard Chartered Bank, a company listed on the Botswana Stock Exchange (BSE), in July 2014 for P85,000. In April 2015 she sold the shares for P152,000.

What is Lindiwe's net disposal gain?

- A** P0
- B** P50,250
- C** P67,000
- D** P45,750

7 Olivia purchased a saloon car on 1 January 2015 for use in her decoration business. The car cost P200,000.

What is the maximum amount of capital allowances which Olivia can claim for the year ended 30 June 2015?

- A** P25,000
- B** P21,875
- C** P50,000
- D** P43,750

8 Jonathon received an assessment for income tax from the Botswana Unified Revenue Service (BURS) on 31 December 2014. Jonathon wishes to submit a formal objection against this assessment.

What is the deadline for Jonathon submitting a formal objection against the income tax assessment received?

- A** 1 March 2015
- B** 30 January 2015
- C** 10 April 2015
- D** 19 February 2015

9 A value added tax (VAT) registered company, Botswana Supplies, delivered goods to a customer on 30 January 2015. Botswana Supplies issued an invoice for the goods delivered on 14 February 2015 with a due date for payment of 28 February 2015. The customer eventually paid Botswana Supplies for the goods on 4 March 2015.

What is the date of supply of the goods for value added tax (VAT) purposes?

- A** 4 March 2015
- B** 28 February 2015
- C** 30 January 2015
- D** 14 February 2015

10 Mogotsi Enterprises paid gross interest amounting to P300,000 to a non-resident taxpayer and gross interest amounting to P200,000 to a resident taxpayer during the year ended 31 March 2015.

How much withholding tax should be deducted by Mogotsi Enterprises in respect of the payments made during the year ended 31 March 2015?

- A P20,000
- B P60,000
- C P65,000
- D P75,000

11 Pula Associates (Pty) Ltd had a taxable income of P2,500,000 for the year ended 30 April 2015.

What is the minimum amount of the FIRST self-assessment tax (SAT) payment which Pula Associates (Pty) Ltd should have made and the due date for payment?

- A P137,500 on 30 April 2015
- B P110,000 on 31 July 2014
- C P125,000 on 31 August 2015
- D P137,500 on 31 August 2015

12 **Which of the following statements correctly explains the main difference between tax evasion and tax avoidance?**

- A Both tax evasion and tax avoidance are illegal but tax evasion is a more serious offence
- B Both tax evasion and tax avoidance are illegal but tax avoidance is a more serious offence
- C Tax evasion is illegal, whereas tax avoidance is legal
- D Tax avoidance is illegal, whereas tax evasion is legal

13 Apex Products made standard rated supplies of P1,000,000 and zero-rated supplies of P250,000 in the year ended 30 June 2015. The company had inputs of P750,000 which were not allocable to a particular supply.

What is the amount which is deductible for input tax credit purposes in the year ended 30 June 2015?

- A P750,000
- B P150,000
- C P600,000
- D P187,500

14 Kudu Enterprises (Pty) Ltd sold a machine which had originally cost P450,000 for proceeds of P230,000 on 1 November 2014. The old machine was fully written down for tax purposes. A new replacement machine was purchased for P600,000 on 31 December 2014.

What is the amount of capital allowances which Kudu Enterprises (Pty) Ltd can claim on the new machine after all reliefs have been claimed for the year ended 31 March 2015?

- A P55,500
- B P57,000
- C P67,500
- D P90,000

15 Anwar resided in a house provided by his employer company throughout the tax year 2014/2015.

The monthly market value rental of the house was P5,000, the rateable value was P1,250,000 and the size of the house was 270 square metres. Anwar's taxable employment income in the tax year 2014/2015 was P600,000.

How much is the housing benefit assessable to Anwar for the tax year 2014/2015?

- A** P60,000
- B** P150,000
- C** P67,500
- D** P125,000

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1** Redhorn Investments (Pty) Ltd sold its property situated on Plot 25621 Gaborone during the year ended 31 December 2014. Redhorn Investments (Pty) Ltd also sold its investment in the shares of Shield Engineering (Pty) Ltd during the year. The following details are relevant to the two disposals:
1. Plot 25621 was originally purchased for P140,000 in September 2002.
 2. A factory building was constructed on Plot 25621 in February 2004 for a cost of P850,000.
 3. The factory was extended in August 2008 for a cost of P675,000.
 4. Plot 25621 was sold in January 2014 for proceeds of P8,750,000.
 5. The investment in the shares of Shield Engineering (Pty) Ltd was purchased in June 2005 for a cost of P3,200,000. The shares were sold in February 2014 for P1,500,000.
 6. Shield Engineering (Pty) Ltd is not listed on the Botswana Stock Exchange (BSE).
 7. Redhorn Investments (Pty) Ltd has a capital loss brought forward from the prior year of P342,729.

Required:

- (a) Calculate the net disposal gain of Redhorn Investments (Pty) Ltd for the year ended 31 December 2014.** (5 marks)
- (b) Explain when holdover relief from capital gains tax can be claimed.** (3 marks)
- (c) Explain when a balancing charge will arise on a disposal of immoveable property and how it is calculated.** (2 marks)

(10 marks)

- 2 The following transactions took place in the books of Easton Enterprises (Pty) Ltd during the month ended 31 January 2015. All amounts are stated exclusive of value added tax (VAT), where applicable.

	P
Sales to customers outside Botswana	743,980
Sales to customers within Botswana	3,892,048
Sale of saloon car	68,000
Credit notes received	63,892
Commission paid on local sales	186,320
Directors' fees	35,000
Interest paid to a resident	28,740
Management fees paid to a non-resident	100,000
Medical aid contribution	28,861
Fees paid to a contractor for an extension to a factory	89,250
Purchase of shares in another company	400,000
Purchases of inventory	1,895,255
Rent of warehouse	127,300
Repairs to a residential house	21,094
Rent of a residential house	8,500
Salaries and wages	987,215
Credit notes issued in respect of sales outside Botswana	49,704

Required:

In respect of Easton Enterprises (Pty) Ltd for the month ended 31 January 2015:

- (a) Calculate the VAT payable or refundable.**

Note: You should indicate by the use of zero (0) any items referred to in the question where there is no VAT impact. (9 marks)

- (b) State the date by which the VAT return for January 2015 must be submitted.** (1 mark)

(10 marks)

- 3 The following expenses were incurred by Plumbers Supplies (Pty) Ltd in respect of transactions with non-residents during the year ended 30 June 2015:

	P
Purchases of goods	3,895,296
Transport of goods	38,500
Management fees	200,000
Insurance premiums	68,926
Interest on a loan from a shareholder	54,972
Technical advice in respect of a plumbing issue	76,904
Advertisements in an overseas magazine	28,156

Required:

- (a) In respect of each of the above expenses state, giving reasons, whether Plumbers Supplies (Pty) Ltd should withhold tax from the payment to the non-resident and, if tax should be withheld, the rate which will apply. (5 marks)

All the expenses above were paid in full (including any applicable withholding tax) except the following amounts which remained unpaid at 30 June 2015:

	P
Transport of goods	38,500
Management fees	150,000
Technical advice in respect of a plumbing issue	76,904

The company's taxable income for the year ended 30 June 2015, before any adjustments relating to the above, amounted to P579,429.

Required:

- (b) Calculate the taxable income of Plumbers Supplies (Pty) Ltd for the year ended 30 June 2015 after accounting for any adjustments which might be required due to the foregoing.

Note: You should indicate by the use of zero (0) any amounts for which no adjustment is required.

(3 marks)

- (c) State when withholding tax in respect of expenses due to non-residents is payable, distinguishing between the date of accrual and the date of payment. (2 marks)

(10 marks)

- 4 David, a citizen of Botswana, seeks your advice on his tax liability for the tax year ended 30 June 2015 in respect of the following transactions:
1. Interest received from a bank amounting to P78,430. The bank has deducted withholding tax of P7,093.
 2. A finders fee received from an overseas company for arranging a merger with a local company. The fee was paid overseas and amounted to P150,000.
 3. A cash prize of P5,000 in a lucky prize draw.
 4. Sale of 14,000 shares in Universal Enterprises Limited, a company which is listed on the Botswana Stock Exchange (BSE), in July 2014 for P850,000. The shares originally cost David P500,000 when he purchased them in March 2010.
 5. A restraint of trade receipt of P125,000 from the buyers of Tshepo Tile Products (Pty) Ltd, a company which David previously owned, in return for which he agreed not to start a similar kind of business for a period of five years.

Required:

- (a) State, giving reasons, whether transactions 1 to 5 listed above should be included in David's taxable income for the tax year ended 30 June 2015.** (5 marks)

David is considering an employment offer from a company, Maximum Enterprises Limited.

David has asked you how much additional cash he would have to spend every year, after taking into account the income tax payable, if he accepted the offer from Maximum Enterprises Limited.

The employment package David has been offered is as follows:

	P
Salary	400,000
Medical aid	35,000
Company car – cost	210,000
Pension – employee's contribution	6%
Pension – employer's contribution	9%

Required:

- (b) Calculate David's additional post-tax income if he accepts the job offer from Maximum Enterprises Limited.**

Notes:

1. You should indicate any items which are non-taxable by including them in your calculation as zero (0).
2. You should assume for the purposes of your calculations that David has no other taxable income.

(5 marks)

(10 marks)

5 The following are the results of Maruping Distributors (Pty) Ltd for the year ended 31 March 2015:

	Note	P
Income		
Sales to customers within Botswana		14,728,592
Sales to customers outside Botswana		1,653,824
Profit on sale of non-current asset	1	28,701
Interest received		106,740
Dividends received		178,000
Fair value adjustment		200,000
		16,895,857
Expenses		
Administrative expenses		2,174,186
Depreciation		528,961
Purchases		7,498,792
Salaries and wages		2,903,542
Impairment of investment		175,000
Interest paid to non-resident	2	462,722
Motor vehicle expenses – repairs		398,561
Motor vehicle expenses – fuel		278,635
Provision for loss		350,000
Rent of warehouse		672,456
		15,442,855
Net profit for the year		1,453,002

Notes

1. Profit on sale of non-current asset:

	P
Cost	672,902
Depreciation	(421,980)
	250,922
Fair value adjustment	(79,623)
	171,299
Sales price	200,000
Profit on sale of non-current asset	28,701

Capital allowances amounting to P367,282 had been claimed on this asset as at the date of sale.

2. Withholding tax deducted from payments:

	P
Interest paid to a non-resident	34,500

Other information

- (i) The total capital allowances claim for the year amounted to P714,806.
- (ii) The company declared a dividend of P1,200,000 on 16 May 2014 and paid the dividend on 2 July 2014. Maruping Distributors (Pty) Ltd has both resident and non-resident shareholders.
- (iii) The company made a self-assessment tax (SAT) payment of P100,000 on 30 June 2014 but has made no further payments since.

Required:

In respect of Maruping Distributors (Pty) Ltd for the year ended 31 March 2015:

- (a) Calculate the taxable income. (8 marks)
- (b) (i) Calculate the withholding tax payable in respect of the dividend (note (ii)); (1 mark)
(ii) State the date by which payment of the withholding tax on the dividend must be made; (1 mark)
(iii) State the consequences if the company underpays the withholding tax due on the dividend. (2 marks)
- (c) Calculate the minimum self-assessment tax (SAT) which should have been paid on 30 September 2014 so as not to incur any interest. (3 marks)

(15 marks)

6 Naledi Mangadi is the owner of a clothing business known as 'Next Generation'. His results for the year ended 30 June 2015 are as follows:

	Notes	P
Receipts		
Sales		3,762,836
Refund of loan made to his brother		200,000
Interest received from his brother on the loan	1	21,600
Interest received from a bank	1	42,822
Dividends received	1	17,231
Rental income	3	240,000
		<u>4,284,489</u>
Payments		
Purchases		2,346,972
Electricity expense		47,226
Shop rental	2	171,000
Naledi's house rental	2	71,250
Withholding tax on rental costs (house and shop)	2	12,750
Purchase of shares in First National Bank		264,397
Medical aid		25,182
Salaries and wages		836,273
Costs related to the rental income	3	121,470
Motor vehicle expenses		68,042
Holiday costs for Naledi		29,637
Naledi's salary		120,000
		<u>4,114,199</u>
Net profit		<u>170,290</u>

Notes

1. These receipts are stated net of withholding tax as follows:

	P
Interest income (from the bank and his brother)	7,158
Dividend income	1,397
	<u>8,555</u>

2. The rental payments are stated net of withholding tax totalling P12,750.

3. Naledi also received gross rental income amounting to P240,000. The costs related to the rental income are made up as follows:

	P
Insurance and rates	53,350
Repairs and maintenance	68,120
	<u>121,470</u>

Withholding tax of P12,000 was suffered on the rental income received.

Additional information

The capital allowance position at 30 June 2014 was as follows:

	Plant P	Vehicles P
Cost at 30 June 2014	288,634	568,012
Capital allowances claimed to date at 30 June 2014	(267,890)	(308,631)
	<u>20,744</u>	<u>259,381</u>

Required:

Calculate Naledi Mangadi's taxable income from all sources for the year ended 30 June 2015.

(15 marks)

End of Question Paper