
Answers

Section A

1 C

	P
Salary	500,000
Interest paid by Bond Retailers (Pty) in respect of a loan	157,852
Interest paid by a bank	0
Interest paid by a building society	0
Dividends paid by listed companies	0
	<u>657,852</u>

2 D

3 A

Being the greater of P50 per day or 10% per month or part thereof of the tax due.

4 C

5 B

6 B

	P
Sale price – held for less than one year	152,000
Cost price	<u>(85,000)</u>
	67,000
25% moveable property allowance	<u>(16,750)</u>
Net disposal gain	<u>50,250</u>

7 D

P200,000 restricted to P175,000 at 25% = P43,750.

8 A

9 D

Being the earlier of an invoice being issued or payment received.

10 C

		P
300,000	15%	45,000
200,000	10%	<u>20,000</u>
		<u>65,000</u>

11 B

$2,500,000 \times 22\% = (P550,000 \times 80\%) / 4 = P110,000$

First instalment due three months from the start of the company's financial year.

12 C

13 A

	P
Standard rated	1,000,000
Zero rated	<u>250,000</u>
	1,250,000
Deduction – the full amount	<u>750,000</u>

14 A

	P
Cost	450,000
Less: capital allowances	<u>(450,000)</u>
	0
Sale proceeds	<u>230,000</u>
Balancing charge	<u>230,000</u>
Cost of new machine	600,000
Less: rollover relief	<u>(230,000)</u>
Tax cost of new machine	<u>370,000</u>
Capital allowance 15% of 370,000	<u>55,500</u>

15 D

	P
1,250,000 x 10%	<u>125,000</u>

2 marks each

30

1 Redhorn Investments (Pty) Ltd

(a) Net disposal gain

	Cost P	Accretion P	Tax cost P	Net gain P	
(i) Plot 25621 Gaborone					
Land September 02	140,000				
Accretion – 140,000 x (1611·2 – 666·7)/666·7		198,335	338,335		1
Building February 04	850,000				
Accretion – 850,000 x (1611·2 – 728·6)/728·6		1,029,660	1,879,660		1
Extension August 08	675,000				
Accretion – 675,000 x (1611·2 – 1140·6)/1140·6		278,498	953,498		1
	<u>1,665,000</u>	<u>1,506,493</u>	<u>3,171,493</u>		
Sales proceeds			<u>8,750,000</u>	5,578,507	0·5
(ii) Investment in Shield Engineering (Pty) Ltd					
Cost			3,200,000		
Sales proceeds			<u>1,500,000</u>	(1,700,000)	1
Less: capital loss brought forward				<u>(342,729)</u>	0·5
Net disposal gain				<u>3,535,778</u>	<u>5</u>

(b) Holdover relief

Holdover relief can be claimed if the disposal gain arises from the disposal of property as a consequence of a merger or restructure of two or more resident companies where there is no change in the beneficial ownership.

1

Holdover relief can also apply where the sole reason for the restructure or merger is because of a listing on the Botswana Stock Exchange (BSE).

2

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(c) Balancing charge

On a disposal of immovable property, the proceeds of disposal are compared with the tax value of the asset sold (cost less capital allowances claimed).

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If the proceeds of disposal are higher than the tax value of the asset sold, a balancing charge equal to the difference arises.

0·5

However, this balancing charge is limited to the capital allowances claimed on the asset (as any increase in the value of the asset will be taxed as a disposal gain).

0·5

2

10

2 Easton Enterprises

(a) Value added tax (VAT) payable

	P	
Outputs		
Sales to customers outside Botswana (exports)	0	0·5
Sales to customers within Botswana	3,892,048	0·5
Sale of saloon car (non-VAT item)	0	0·5
Credit notes received	63,892	0·5
	<u>3,955,940</u>	
Inputs		
Commission paid on local sales	186,320	0·5
Directors' fees (non-VAT item)	0	0·5
Interest paid to a resident (exempt)	0	0·5
Management fees paid to a non-resident (zero rated)	0	0·5
Medical aid contribution (non-VAT item)	0	0·5
Fees paid to contractor for extension to factory	89,250	0·5
Purchase of shares (exempt)	0	0·5
Purchases of inventory	1,895,255	0·5
Rent of warehouse	127,300	0·5
Repairs to residential house (exempt)	0	0·5
Residential rent (exempt)	0	0·5
Salaries and wages (non-VAT item)	0	0·5
Credit notes issued in respect of export sales (zero rated)	0	0·5
	<u>2,298,125</u>	
Excess of outputs over inputs	1,657,815	
VAT thereon at 12%	198,938	0·5
		<u>9</u>

(b) Date of VAT return submission

25 February 2015.	<u>1</u>
	<u>10</u>

3 Plumbers Supplies

(a) Withholding tax

(i) There is no withholding tax on the purchase of goods;	0·5
(ii) There is no withholding tax on transport payments;	0·5
(iii) There is a 15% withholding tax on management or consultancy fees paid to a non-resident;	0·5
(iv) There is no withholding tax on payments of insurance;	1
(v) There is a 15% withholding tax on the payment of interest to non-residents;	1
(vi) There is a 15% withholding tax on fees for technical advice to non-residents – this falls under the definition of management and consultancy fees;	1
(vii) There is no withholding tax on fees for advertisements paid to a non-resident.	0·5
	<u>5</u>

(b) Taxable income

	P	
Unadjusted taxable income	579,429	
Add: transport of goods	0	1
Add: management fee	150,000	1
Add: technical fee	76,904	1
Adjusted taxable income	<u>806,333</u>	
		<u>3</u>

(c) Timing of payment of withholding tax

Withholding tax is payable no later than the 15th day of the month following that in which payment of the relevant expense to the non-resident was made. The Income Tax Act specifically states 'payment' and not 'accrual'. Accordingly, the date when an accrual is made for the relevant expense is of no relevance to the due date for payment of the withholding tax.

210**4 David****(a) Liability of transactions to tax**

- | | |
|--|---|
| (1) Where a bank or building society deducts withholding tax from interest paid to an individual, then that is a final charge to tax. Therefore, David is not required to declare the bank interest nor pay any further tax on it. | 1 |
| (2) Any fee received for services rendered is liable to tax. It makes no difference that the amount is paid outside Botswana. Therefore, David must include the fee in his taxable income. | 1 |
| (3) A cash prize in a lucky prize draw is considered to be of a capital or fortuitous nature and thus would not be included in David's taxable income. | 1 |
| (4) The sale of shares is normally liable to capital gains tax. However, any gains arising on the sale of shares listed on the Botswana Stock Exchange (BSE) are specifically exempted from capital gains tax provided they have been held for at least one year. Therefore, no gain in respect of the disposal of the shares in Universal Enterprises Limited will be included in David's taxable income. | 1 |
| (5) A sale receipt in respect a restraint of trade is considered to be capital in nature and therefore the P125,000 is not included in David's taxable income. | 1 |

15**(b) Post-tax income from employment package**

	P	
Salary	400,000	0.5
Medical aid	0	0.5
Company car (10,000 + (10,000 x 15%))	11,500	0.5
Pension – employee's contribution	0	0.5
Pension – employer's contribution	0	0.5
	<u>411,500</u>	
Less: employee's pension contribution (400,000 x 6%)	(24,000)	0.5
	<u>387,500</u>	
Tax thereon:		
First P144,000	13,050	
Next P243,500 at 25%	60,875	0.5
	<u>73,925</u>	
Post-tax income		
Salary	400,000	0.5
Less: pension – employee's contribution	(24,000)	0.5
Less: income tax	(73,925)	0.5
	<u>302,075</u>	

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5 Maruping Distributors (Pty) Ltd

(a) Taxable income

Working

		P	
Cost		672,902	
Capital allowances		<u>(367,282)</u>	
		305,620	
Sales price		200,000	
Balancing allowance		<u>(105,620)</u>	2
	P	P	
Net profit per accounts		1,453,002	
Add: depreciation	528,961		0.5
Add: impairment of investment	175,000		0.5
Add: provision for loss	350,000		0.5
Add: interest paid to non-resident	<u>462,722</u>	1,516,683	1
Less: capital allowances	714,806		0.5
Less: dividends received	178,000		0.5
Less: profit on sale of assets	28,701		0.5
Less: interest paid to non-resident (34,500/15%)	230,000		1
Less: fair value adjustment	200,000		0.5
Less: balancing allowance (working)	<u>105,620</u>	<u>(1,457,127)</u>	0.5
Taxable income		<u>1,512,558</u>	
			<u>8</u>

Tutorial note: The total expense relating to interest paid to non-residents is added back and the deduction is determined by reference to the withholding tax actually paid in the year.

(b) Withholding tax

		P	
(i) 7.5% of P1,200,000 =		<u>90,000</u>	1
(ii) The withholding tax on the dividends paid on 2 July 2014 is due by 15 August 2014.			1
(iii) Withholding tax underpaid in respect of payments to residents will result in an interest charge of 1.5% per month or part thereof. The same will apply to payments made to non-residents. As dividends are not a tax deductible expense, the underpayment of withholding tax will have no impact on the deductibility of the underlying payment.			<u>2</u>

(c) Self-assessment tax (SAT)

		P	
Taxable income (part (a))		<u>1,512,558</u>	
Tax thereon at 22%		<u>332,763</u>	0.5
Minimum quarterly payment – 20%		<u>66,553</u>	0.5
Payable 30 June 2014		66,553	
Actually paid 30 June 2014		<u>(100,000)</u>	0.5
Excess 1st quarter		(33,447)	1
Payable 30 September 2014		<u>66,553</u>	0.5
Minimum payable 30 September 2014		<u>33,105</u>	
			<u>3</u>
			<u>15</u>

6 Naledi Mangadi

Taxable income

Working 1

	Plant P	Vehicles P	Total P	
Cost at 30 June 2014	<u>288,634</u>	<u>568,012</u>	<u>856,646</u>	
Capital allowances at 30 June 2014	267,890	308,631	576,521	
Charge for the year at 15%/25%	<u>20,744</u>	<u>142,003</u>	<u>162,747</u>	1.5
	<u>288,634</u>	<u>450,634</u>	<u>739,268</u>	
Tax value at 30 June 2015	<u>0</u>	<u>117,378</u>	<u>117,378</u>	

Tutorial note: The capital allowances in respect of the plant are restricted to the tax value at the start of the year.

Working 2

	Net P	WHT P	Gross P	
Receipts				
Interest received from brother – 10%	21,600	2,400	24,000	0.5
Interest received from bank – 10%	42,822	4,758	47,580	0.5
Payments				
Shop rental – 5%	171,000	9,000	180,000	0.5
Naledi's house rental – 5%	71,250	3,750	75,000	0.5

Working 3 – Chargeable income from business

	P	P	
Net profit from business		170,290	0.5
Add: shop rental – net	171,000		0.5
Add: Naledi's house rental – net	71,250		0.5
Add: withholding tax on rentals	12,750		0.5
Add: purchase of shares	264,397		0.5
Add: costs of rental income	121,470		0.5
Add: personal holiday costs	29,637		0.5
Add: Naledi's salary	<u>120,000</u>	790,504	0.5
Less: shop rental – gross (W2)	180,000		0.5
Less: capital allowances (W1)	162,747		0.5
Less: refund of loan	200,000		0.5
Less: interest received – brother	21,600		0.5
Less: interest received – bank	42,822		0.5
Less: dividends received	17,231		0.5
Less: rental income	<u>240,000</u>	(864,400)	0.5
Chargeable income from business		<u>96,394</u>	

Working 4 – Chargeable income from rents

	P	P	
Gross rental received		240,000	0.5
Less: insurance and rates	53,350		0.5
Less: repairs and maintenance	<u>68,120</u>	(121,470)	0.5
Chargeable income from rents		<u>118,530</u>	
		P	
Chargeable income from business (W3)		96,394	0.5
Chargeable income from rents (W4)		118,530	0.5
Interest from brother (W2)		24,000	0.5
Interest from bank		0	0.5
Dividends received		<u>0</u>	0.5
Taxable income		<u>238,924</u>	

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