
Answers

Section B

Marks

1 Naledi Coach Builders (Pty) Ltd
Year ended 30 June 2016

(a) (i) Payment of withholding tax (WHT)

A liability to withholding tax on a payment to a non-resident is triggered when payment is actually made and not at the time of the accrual of the expense.

1

Withholding tax is payable by the 15th of the month following the month in which the payment to the non-resident was made.

1

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(ii) Consequences of non-payment of WHT

Expenses relating to interest, royalties, management and consulting fees paid to non-residents and liable to withholding tax, can only be deducted for tax purposes if (or to the extent that) withholding tax is paid during that tax year.

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(b) Taxable income and tax payable

	P	P	
Net profit per accounts		3,508,136	
Add: management fees	538,012		0.5
Add: technical fees	287,198		0.5
Add: consulting fees	42,801		0.5
Add: commission	0		0.5
Add: transport	0	868,011	0.5
	<u> </u>		
Less: dividends (taxed by withholding)	289,600		0.5
Less: management fees (37,913/15%)	252,753		1
Less: technical fees (22,884/15%)	152,560		1
Less: consulting fees (13,051/15%)	87,007	(781,920)	1
	<u> </u>		
Taxable income		<u>3,594,227</u>	
			<u>6</u>
			<u>10</u>

2 Pearl Wachira

(a) Net disposal gain

	P	P	
(1) Plot 14216, Gaborone			
Original cost	450,000		
Indexation ((450,000 x 1709.8/1213.0) – 450,000)	184,303		0.5
	<u>634,303</u>		
Sales price	950,000	315,697	0.5
	<u> </u>		
(2) Pearl's Hairdressing Salon			
Goodwill	350,000		0.5
Less: 25% moveable property allowance	(87,500)	262,500	0.5
	<u> </u>		
(3) Pearl's Creations (Pty) Ltd			
Sale price of shares and loan account	575,000		
Less: loan account	(278,364)		0.5
Less: cost of shares	(1,000)		0.5
	<u>295,636</u>		
Less: 25% moveable property allowance	(73,909)	221,727	0.5
	<u> </u>		
		799,924	
Less: capital loss brought forward		(163,902)	0.5
Net disposal gain		<u>636,022</u>	
			<u>4</u>

(b) Taxable income

Working: Balancing charge on fixed assets		P	
Cost of fixed assets		143,250	
Less: capital allowances claimed		(31,752)	
Tax written down value		111,498	0.5
Sales price		120,000	0.5
Balancing charge		8,502	
		P	
Chargeable income		719,086	0.5
Balancing charge – Plot 14216		261,859	1
Balancing charge – fixed assets (working)		8,502	0.5
Profit on disposal of stock (55,000 – 53,000)		2,000	0.5
Net disposal gain (from part (a))		636,022	0.5
Taxable income		1,627,469	
Tax payable			
	P	P	
On income:			
First P144,000		13,050	0.5
Next P847,447 at 25%		211,862	0.5
		224,912	
On capital gains:			
First P144,000	13,950		0.5
Next P492,022 at 25%	123,005	136,955	0.5
Total tax payable		361,867	
			6
			10

3 Goodhope Packaging (Pty) Ltd**(a) Timing of input claim**

(1) For purchased goods and services: as soon as in possession of a valid tax invoice.	1
(2) For imported goods: as soon as in possession of either a bill of entry or a receipt for payment of tax.	1
	2

(b) Value added tax (VAT) payable for the tax period ended 31 October 2015

		P	
Outputs			
Sales of goods		2,761,974	0.5
Purchase returns		26,185	0.5
Discount received		18,853	1
		2,807,012	
Inputs			
Purchases of goods		1,560,725	0.5
Sales returns		56,823	0.5
Salaries and wages (out of scope)		0	0.5
Medical aid contributions (exempt)		0	0.5
Residential rentals (exempt)		0	1
Interest paid (exempt)		0	0.5
Purchase of new packing machine		150,000	0.5
Management fees paid to a non-resident (zero rated)		0	1
Repairs to residential houses (exempt)		0	0.5
		1,767,548	
Excess of outputs over inputs		1,039,464	
VAT payable at 12%		124,736	0.5
			8
			10

4 Kebonye

(a) Income tax payable and after tax cash income

(1) Mobitel Communications (Pty) Ltd employment package

	P	
Salary	504,000	
13th cheque	42,000	0.5
Medical aid – 50% company contribution	0	0.5
Pension – 75% company contribution	0	0.5
	<u>546,000</u>	
Pension – personal contribution (50,400/3)	(16,800)	0.5
Taxable income	<u>529,200</u>	
Income tax payable thereon	109,350	0.5
After tax cash income (504,000 + 42,000 – 109,350)	<u>436,650</u>	0.5

(2) Digital Products (Pty) Ltd employment package

	P	
Salary	480,000	
Company car (10,000 + (15% x 20,000))	13,000	0.5
Company housing (10% x 720,000)	72,000	0.5
Children's school fees	25,000	0.5
Medical aid – 100% company contribution	0	
	<u>590,000</u>	
Retirement annuity fund contributions	(48,000)	0.5
Taxable income	<u>542,000</u>	
Income tax payable thereon	112,550	0.5
After tax cash income (480,000 – 112,550)	<u>367,450</u>	0.5

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(b) (1) Mobitel Communications (Pty) Ltd

	P	
After tax cash income (from part (a))	436,650	
Medical aid contributions (50%)	(10,000)	0.5
Pension contributions (25%)	(16,800)	0.5
House rent	(36,000)	0.5
Car costs	(32,000)	0.5
School fees	(35,000)	0.5
Disposable income	<u>306,850</u>	

(2) Digital Products (Pty) Ltd

	P	
After tax cash income (from part (a))	367,450	
Retirement annuity fund contributions	(48,000)	0.5
School fees (35,000 – 25,000)	(10,000)	0.5
Disposable income	<u>309,450</u>	

Kebonye will be better off by P2,600 per annum if she accepts the offer from Digital Products (Pty) Ltd. 0.5

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5 Reliance Structures (Pty) Ltd
Year ended 30 June 2016

(a) Taxable income

Working – Balancing charge

		P	
Tax value at 30 June 2015		163,356	0·5
Insurance proceeds		275,190	0·5
		<u>111,834</u>	
	P	P	
Net profit per accounts		2,168,357	
<i>Add: balancing charge</i>	111,834		0·5
<i>Add: general provision for bad debts</i>	108,672		1
<i>Add: bad debts purchased</i>	122,785		1
<i>Add: depreciation</i>	688,205		0·5
<i>Add: impairment of investment</i>	750,000		1
<i>Add: interest charged by a non-resident</i>	173,822		0·5
<i>Add: provision for warranty 2016</i>	388,723		1
<i>Add: goods delivered but not invoiced</i>	<u>149,206</u>	2,493,247	1
<i>Less: capital allowances</i>	569,203		0·5
<i>Less: insurance proceeds</i>	275,190		0·5
<i>Less: fair value adjustment</i>	350,000		1
<i>Less: training reimbursement from BTO</i>	86,297		1
<i>Less: dividend received</i>	37,892		0·5
<i>Less: interest charged by a non-resident</i>	20,000		1
<i>Less: provision for warranty 2015</i>	<u>286,382</u>	(1,624,964)	1
Taxable income		<u>3,036,640</u>	<u>13</u>

(b) Deduction for bad debts

For a person to claim a deduction for bad debts the following three conditions must be met:

- | | |
|--|-----------|
| (1) the debt must have been incurred by the taxpayer; | 0·5 |
| (2) the debt must be bad; and | 0·5 |
| (3) the debt must have been brought into the taxpayers gross income either in the current year or in a prior tax year. | <u>1</u> |
| | <u>2</u> |
| | <u>15</u> |

6 Isaac Basupile
Tax year ending 30 June 2016

(a) Chargeable income from employment

		P	
Salary		627,826	0·5
Shift allowance		58,251	0·5
Bonus		82,500	0·5
Housing (220 x 250 x 8%)		4,400	1
Company medical aid contribution		0	0·5
Chargeable income from employment		<u>772,977</u>	<u>3</u>

(b) Chargeable income from transport business

Working – Capital allowances

		P	
Cost of vehicles at 30 June 2015		864,942	0·5
Seven ton truck purchased in year		<u>375,000</u>	0·5
Cost of vehicles at 30 June 2016		<u>1,239,942</u>	
Capital allowances at 25%		<u>309,986</u>	0·5
Net loss per accounts		P	
		(338,272)	
<i>Add:</i> cost of seven ton truck	375,000		0·5
<i>Add:</i> vehicle running costs	0		0·5
<i>Add:</i> traffic fines	4,762		1
<i>Add:</i> Elijah's salary	0		1
<i>Add:</i> overdraft interest	0		0·5
<i>Add:</i> drawings by Isaac	84,250		1
<i>Add:</i> school fees	46,425		1
<i>Add:</i> other costs	<u>0</u>	510,437	0·5
<i>Less:</i> capital allowances (working)		(309,986)	0·5
Chargeable loss from business		<u>(137,821)</u>	
			<u>8</u>

(c) Taxable income and tax refundable

		P	
Chargeable income from employment (from part (a))		772,977	0·5
Chargeable loss from business		0	1
Bank interest received (taxed by withholding)		<u>0</u>	1
Taxable income		<u>772,977</u>	
Tax payable:			
		P	
First P144,000		13,050	
Next P628,977 at 25%		<u>157,244</u>	
		170,294	0·5
<i>Less:</i> PAYE	178,386		0·5
<i>Less:</i> withholding tax on bank interest	<u>0</u>	(178,386)	0·5
Tax refundable		<u>(8,092)</u>	
			<u>4</u>
			<u>15</u>

Tutorial note: A business loss cannot be set-off against other income. The business loss must be carried forward for set-off against future chargeable income from business.