

Fundamentals Level – Skills Module

Taxation (Botswana)

Thursday 8 December 2016



Time allowed: 3 hours 15 minutes

This question 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

Tax rates and allowances are printed on pages 2–5.

Do NOT open this question paper until instructed by the supervisor.

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

This question paper must not be removed from the examination hall.

Think Ahead

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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
2015/2016 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%
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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	2015	
January	1223·2	1320·0	1436·1	1544·3	1611·2	1670·7	
February	1225·4	1330·2	1440·0	1546·9	1618·7	1664·2	
March	1234·6	1338·9	1446·5	1555·4	1624·3	1669·8	
April	1256·2	1359·0	1460·4	1565·6	1637·1	1687·5	
May	1268·6	1373·6	1480·0	1570·2	1641·0	1690·3	
June	1285·3	1386·4	1487·3	1573·8	1645·6	1696·8	
July	1289·7	1380·6	1492·1	1576·7	1647·5	1698·7	
August	1290·6	1403·4	1496·7	1580·4	1652·1	1701·5	
September	1297·9	1409·0	1508·9	1584·3	1654·8	1704·2	
October	1300·6	1415·0	1515·4	1587·9	1656·8	1708·9	
November	1304·2	1424·0	1530·2	1593·5	1661·4	1709·8	
December	1309·1	1428·8	1534·8	1598·1	1657·7	1708·9	

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 The summarised results of Naledi Coach Builders (Pty) Ltd for the year ended 30 June 2016 are as follows:

	P
Income	16,481,639
Expenditure	(12,973,503)
Net profit	<u>3,508,136</u>

Additional information:

1. Income includes the following gross amounts received from non-residents from which withholding tax was deducted:

	P
Rent (tax withheld P28,673)	573,460
Interest (tax withheld P15,904)	159,040
Dividends (tax withheld P21,720)	289,600
	<u>1,022,100</u>

2. Expenditure includes the following expenses paid to non-residents:

	P
Management fees	538,012
Technical fees	287,198
Consulting fees	42,801
Commission	368,051
Transport	603,128

3. The following amounts of withholding tax were deducted and paid over in respect of the payments made to non-residents during the year ended 30 June 2016:

	P
Management fees	37,913
Technical fees	22,884
Consulting fees	13,051

No withholding tax was deducted from the commission or transport payments.

Required:

(a) With respect to payments made to non-residents:

(i) State when a liability to withhold tax is triggered and when it is payable to the Botswana Unified Revenue Service (BURS). (2 marks)

(ii) Explain the consequences of a failure to deduct withholding tax and/or pay it over to BURS. (2 marks)

(b) In respect of Naledi Coach Builders (Pty) Ltd, calculate the company's taxable income for the tax year ended 30 June 2016.

Note: You should list all of the expenses paid to non-residents, indicating by the use of zero (0) any that do not require adjustment. (6 marks)

(10 marks)

- 2** The following capital transactions were carried out by Pearl Wachira in the tax year ended 30 June 2016:
1. Sale of Plot 14216, Gaborone for P950,000 in November 2015. The original cost of the plot was P450,000 in September 2009 and Pearl had claimed capital allowances of P261,859 in respect of the building.
 2. Sale of her business styled Pearl's Hairdressing Salon for P525,000 made up as follows:

	P
Fixed assets	120,000
Stock	55,000
Goodwill	350,000
	525,000

The fixed assets originally cost P143,250 and Pearl had claimed capital allowances of P31,752.

The stock had an original cost of P53,000.

3. Sold her shares and loan account in Pearl's Creations (Pty) Ltd for P575,000. The shares had originally cost P1,000 in January 2010 and at the date of sale her loan account stood at P278,364.
4. Pearl has a capital loss brought forward from the previous tax year of P163,902.
5. Pearl's chargeable income for the tax year ending 30 June 2016 before taking account of the above transactions, is P719,086.

Required:

In respect of Pearl Wachira for the tax year ended 30 June 2016:

- (a) Calculate her net disposal gain. (4 marks)
- (b) Calculate her taxable income and tax payable. (6 marks)

(10 marks)

- 3 The transactions of Goodhope Packaging (Pty) Ltd for the tax period ended 31 October 2015 were as follows. All figures are exclusive of value added tax (VAT) where applicable.

		P
Income		
Sales of goods		2,761,974
Purchase returns		26,185
Discount received		18,853
		2,807,012
Expenses		
Purchases of goods		1,560,725
Sales returns		56,823
Salaries and wages		788,021
Medical aid contributions		28,690
Residential rentals		27,500
Interest paid		57,228
Purchase of a new packing machine		150,000
Management fees paid to a non-resident		68,925
Repairs to residential houses		12,076
		2,749,988
Net profit		57,024

Required:

- (a) State at what point a company can claim an input tax deduction in respect of:

- (1) a purchase of goods or services; and
- (2) imported goods.

(2 marks)

- (b) In respect of Goodhope Packaging (Pty) Ltd for the tax period ended 31 October 2015, calculate the total taxable outputs, total deductible inputs and the value added tax (VAT) payable or refundable.

Note: You should list all of the transactions referred to in the question and indicate by the use of zero (0) any items which are exempt, zero-rated or outside the scope of VAT.

(8 marks)

(10 marks)

- 4 Kebonye is currently employed by Mobitel Communications (Pty) Ltd but she is considering an alternative offer of employment from Digital Products (Pty) Ltd.

Kebonye's current employment package from Mobitel Communications (Pty) Ltd is:

	P
Basic annual salary	504,000
13th cheque	42,000
Medical aid – 50% company contribution	10,000
Pension – 75% company contribution	50,400

The employment package offered by Digital Products (Pty) Ltd is:

	P
Basic annual salary	480,000
Children's school fees (maximum)	25,000
Medical aid – 100% company contribution	20,000

In addition, Kebonye will have the use of a company car, costing P220,000 and company housing with a rateable value of P720,000.

Kebonye's current annual costs are:

	P
House rent	36,000
Car costs	32,000
Children's school fees	35,000

Digital Products (Pty) Ltd does not have a pension scheme, so if Kebonye accepts their offer she will contribute P48,000 per annum to a retirement annuity fund.

Required:

- (a) Calculate Kebonye's income tax payable and after tax cash income in the case of:

- (1) her current employment package with Mobitel Communications (Pty) Ltd; and
- (2) the employment package offered by Digital Products (Pty) Ltd.

Note: You should indicate by the use of zero (0) any items in each employment package that do not result in taxable income. (6 marks)

- (b) Prepare calculations to determine whether Kebonye will be better off, and if so by how much per year, if she accepts the offer of employment from Digital Products (Pty) Ltd.

Note: You should start your calculations in this part with the after tax cash income figures calculated in part (a). (4 marks)

(10 marks)

5 The following are the results of Reliance Structures (Pty) Ltd (RSL) for the year ended 31 December 2015:

	Note	P
Income		
Gross profit		8,369,201
Insurance proceeds	1	275,190
Fair value adjustment		350,000
Botswana Training Organisation (reimbursement)		86,297
Dividend received		37,892
		<u>9,118,580</u>
Expenditure		
Administration expenses		1,511,734
Bad debts	2	351,292
Depreciation		688,205
Impairment of investment in subsidiary		750,000
Interest charged by a non-resident	3	173,822
Property costs		489,261
Provision for warranty charges	4	290,638
Salaries and wages		2,695,271
		<u>6,950,223</u>
Net profit for the year		<u>2,168,357</u>

Notes:

1. The insurance proceeds received were in respect of plant which caught fire. The tax value of the destroyed plant as at 31 December 2014 was:

	P
Cost	726,397
Capital allowances claimed	(563,041)
Tax value at 31 December 2014	<u>163,356</u>

2. The charge for bad debts is made up as follows:

	P
Provision for specific bad debts	176,043
Provision for general bad debts	108,672
Specific bad debts recovered	(56,208)
Bad debts in respect of purchased debtors	122,785
	<u>351,292</u>

RSL had purchased a debtors book in a prior tax year. The amount of P122,785 written off had already been claimed as bad debts by the seller.

3. The only withholding tax deducted and paid over during the year ended 31 December 2015 was P3,000 in respect of a payment of P20,000 (gross) made in August 2015.
4. The provision for warranty charges is made up as follows:

	P
Provision at 31 December 2014	286,382
Amounts paid under warranty	(188,297)
Charge for the year	290,638
Provision at 31 December 2015	<u>388,723</u>

5. Goods costing P149,206 had been taken out of stock and delivered to a customer before the year end but were only invoiced to the customer in January 2016.
6. Capital allowances amounted to P569,203.

Required:

- (a) **In respect of Reliance Structures (Pty) Ltd calculate the company's taxable income for the tax year ended 31 December 2015.** (13 marks)
- (b) **State the conditions to be satisfied for a deduction for bad debts to be claimed.** (2 marks)

(15 marks)

6 Isaac Basupile is employed by Evergreen Cold Storage (Pty) Ltd and in addition he owns a transport business which is managed by his brother, Elijah.

The following information is relevant to Isaac for the tax year ended 30 June 2016:

1. Employment income:

	P
Salary	627,826
Shift allowance	58,251
Bonus	82,500
Company medical aid contribution	33,802

Isaac was also provided with a house with an area of 220 square metres.

His employer deducted PAYE totaling P178,386 from the payments made to Isaac.

2. The results of the transport business for the year ended 30 June 2016 are as follows:

	P	P
Sales		1,872,691
Purchase of new seven ton truck	375,000	
Vehicle running costs	801,264	
Traffic fines	4,762	
Elijah's salary	360,000	
Overdraft interest	56,218	
Drawings by Isaac	84,250	
School fees for Isaac's son	46,425	
Other costs (all tax deductible)	483,044	(2,210,963)
Net loss		<u>(338,272)</u>

The tax value of the transport business' vehicles at 30 June 2015 was:

	P
Cost	864,942
Capital allowances claimed	(289,486)
Tax value at 30 June 2015	<u>575,456</u>

3. Isaac earned bank interest amounting to P37,800 from which withholding tax of P3,780 was deducted by the bank.

Required:

In respect of Isaac Basupile for the tax year ended 30 June 2016:

(a) Calculate his chargeable income from employment.

Note: You should indicate by the use of zero (0) any amounts that do not result in taxable income.

(3 marks)

(b) Calculate his chargeable income or loss from the transport business.

Note: You should start your computation with the net loss figure of P338,272 and include all of the expenditure items referred to in the question, indicating by the use of zero (0) any not requiring adjustment.

(8 marks)

(c) Calculate his total taxable income and net tax payable or refundable.

Note: You should indicate by the use of zero (0) any amounts not requiring adjustment.

(4 marks)

(15 marks)

End of Question Paper