

Fundamentals Level – Skills Module

# Taxation (Botswana)

Thursday 9 June 2016



**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

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

Rates of tax and tables are printed on pages 2–5.

**Do NOT open this question 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 question paper.**

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

Think Ahead

**ACCA**

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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**

<b>Resident companies</b>	<b>On taxable income</b>
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.

<b>Value added tax (VAT) rate</b>	12%
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**Basis of valuation of benefits**

**Individual’s vehicle benefit**

<b>Vehicle cost</b>		<b>Employee’s benefit</b>	<b>Fuel cost adjustment</b>
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.

	<b>1982</b>	<b>1983</b>	<b>1984</b>	<b>1985</b>	<b>1986</b>	<b>1987</b>	<b>1988</b>
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
	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>
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
	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
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
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	
January	1223·2	1320·0	1436·1	1544·3	1611·2	1670·8	
February	1225·4	1330·2	1440·0	1546·9	1618·7	1614·3	
March	1234·6	1338·9	1446·5	1555·4	1624·3	1669·9	
April	1256·2	1359·0	1460·4	1565·6	1637·1	1687·5	
May	1268·6	1373·6	1480·0	1570·2	1641·0	1690·2	
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	1656·8		
November	1304·2	1424·0	1530·2	1593·5	1661·4		
December	1309·1	1428·8	1534·8	1598·1	1657·7		

**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** Girondas Properties (Pty) Ltd's (GPL) financial year ends on 31 August annually. In May 2015, GPL sold one of its commercial properties, Plot 776, Palapye, for the sum of P7,200,000. Further information relating to the property is as follows:

1. The land was purchased in September 2001 for P400,000.
2. A building costing P850,000 was erected thereon in January 2002.
3. Extensions with a total cost of P550,000 were carried out in June 2006.
4. Capital allowances amounting to P286,250 had been claimed up to the date of disposal.

A new commercial property, Plot 1026, Palapye, was purchased for P1,250,000 in July 2015.

Both properties were used in GPL's business and GPL always claims the maximum available reliefs and allowances.

**Required:**

**In respect of Girondas Properties (Pty) Ltd for the year ended 31 August 2015:**

- (a) Calculate the disposal gain arising on the sale of Plot 776, Palapye.** (6 marks)
- (b) Calculate the balancing charge or allowance arising on the sale of Plot 776, Palapye.** (2 marks)
- (c) Calculate the amount of capital allowance claimable in respect of Plot 1026, Palapye.** (1 mark)
- (d) State the cost of Plot 1026, Palapye for capital gains tax purposes.** (1 mark)

**(10 marks)**

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Question 2 begins on page 12.**

2 Power Plastics (Pty) Ltd (PPL) is an approved manufacturing company for tax purposes. The following results relate to PPL for its financial year ended 31 March 2016:

	P
Sales	11,729,629
Dividends received	37,390
Interest received	18,932
Rents received	156,084
	<u>11,942,035</u>
Cost of sales	5,386,105
Administrative expenses	993,614
Salaries and wages	2,522,974
Other expenses:	
Commission paid to salesmen	822,839
Interest paid to non-residents	78,692
Interest paid to residents	14,694
Marketing fees paid to residents	105,600
Rent paid to residents	60,000
Royalties paid to non-residents	426,450
	<u>10,410,968</u>
Net profit before tax	<u>1,531,067</u>

**Additional information:**

(1) The tax withheld by the resident payers from PPL's receipts was as follows:

	P
Dividends received	2,804
Interest received	1,893
Rents received	7,804
	<u>12,501</u>

(2) The only withholding tax paid by PPL in respect of its other expenses was as follows:

	P
Interest paid to non-residents	11,804
Rent paid to resident	3,000
Royalties paid to non-residents	28,410
	<u>43,214</u>

(3) The salesmen are all full-time employees and tax is deducted from their earnings through the payroll system.

(4) PPL paid self-assessment tax (SAT) of P220,000 in the year ended 31 March 2016.



**Required:**

**In respect of Power Plastics (Pty) Ltd for the year ended 31 March 2016:**

- (a) State when a liability to withhold tax is triggered. (2 marks)
- (b) Assuming that all of the other expenses listed were paid during the year, quantify the tax which should have been withheld from each expense. Indicate any amounts on which there is no requirement to withhold tax by the use of a zero (0). (3 marks)
- (c) Calculate the taxable income. (3 marks)
- (d) Calculate the tax payable or refundable, indicating any tax suffered at source for which no adjustment is available by the use of zero (0). (2 marks)

**(10 marks)**

- 3 The following are the summarised total value added tax (VAT) returns of Monyere Beverages (Pty) Ltd for the year ended 30 April 2016:

	P
<b>Outputs</b>	
Sales	10,783,288
Purchase returns	569,260
Profit on the sale of second-hand machine	44,933
	11,397,481
 <b>Inputs</b>	
Purchases	8,152,429
Rental of premises	1,428,862
Sales returns	177,295
Credit notes issued for price differences	140,906
Selling expenses	472,091
Discount allowed for early settlement	83,273
	10,454,856
 Excess of outputs	 942,625

During a VAT audit the following was discovered:

1. Sales returns include an amount of P62,017 in respect of goods which were exported outside Botswana.
2. The profit on the sale of the second-hand machine was calculated as follows:

	P
Cost	371,108
Depreciation	(296,041)
	75,067
Proceeds	120,000
	44,933

3. Purchases include a tax invoice for P201,793. This invoice was received before the year end but the goods were only received after the year end.
4. Rental of premises includes an amount of P86,200 for residential rent.
5. Selling expenses include hotel bills amounting to P118,269 incurred by the company's travelling salesmen.
6. There are no tax invoices to support the discounts allowed for early settlement.

**Required:**

**In respect of Monyere Beverages (Pty) Ltd for the year ended 30 April 2016:**

- (a) For each of the audit findings (1) to (6), state, giving reasons, whether any value added tax (VAT) adjustment is required. (7 marks)

- (b) Re-compute the excess of outputs for the year.

Note: You should start your computation with the excess stated in the question of P942,625 and indicate by the use of zero (0) any items referred to where no VAT adjustment is required. (3 marks)

**(10 marks)**

- 4 Marshall Enterprises (Pty) Ltd (MPL) has a tax year ending on 30 April each year. A tax audit of MPL's books and records resulted in the issue of the following revised assessments in February 2016, which MPL disputes:

Tax year	Note	Additional tax P
2008	1	87,829
2012	2	147,026
2013	3	38,246

**Notes:**

1. In respect of the 2008 tax year, the Commissioner General advised that he has decided to disallow certain expenditure on the grounds that it was not in the production of income. The expenditure had been fully disclosed in the tax return.
2. The additional tax charged in 2012 includes interest because MPL failed to make any quarterly self-assessment tax (SAT) payments.
3. The 2013 tax return was submitted on 26 November 2013, and the additional tax charged includes a late filing penalty.

**Required:**

- (a) Explain the taxpayer's rights of objection and appeal in the event of a disputed assessment, including any time limits in which these rights must be exercised. (4 marks)
- (b) Explain why Marshall Enterprises (Pty) Ltd will have valid grounds for disputing the 2008 revised assessment. (3 marks)
- (c) State the basis on which the interest included in the 2012 revised assessment will have been calculated. (2 marks)
- (d) Calculate the amount of the late filing penalty included in the 2013 revised assessment. (1 mark)

**(10 marks)**

5 The following are the results of Dikeledi Merchants (Pty) Ltd (DML) for the year ended 31 December 2015:

	Note	P
<b>Income</b>		
Sales		14,103,862
Cost of sales		(9,037,726)
		<u>5,066,136</u>
Dividends received		103,229
Interest received		160,042
Profit on the sale of shares	1	150,000
Profit on the sale of plant	2	65,900
		<u>5,545,307</u>
<b>Expenditure</b>		
Administrative costs		3,213,662
Contributions to a provident fund		68,219
Depreciation	3	706,643
Stock obsolescence		189,964
Unrecovered value added tax (VAT)	4	48,993
		<u>4,227,481</u>
Net profit		<u>1,317,826</u>

**Notes:**

1. The shares sold were in Technolab (Pty) Ltd and the profit is calculated as follows:

	P
Cost	450,000
Fair value adjustment	125,000
	<u>575,000</u>
Sale proceeds	725,000
	<u>150,000</u>

2. The profit on the sale of plant is calculated as follows:

	P
Cost	276,500
Depreciation	(97,400)
Impairment	(75,000)
	<u>104,100</u>
Sales proceeds	170,000
	<u>65,900</u>

The capital allowances claimed on the plant amounted to P141,475.

A new replacement item of plant was purchased for P350,000.

3. Included in depreciation is the depreciation on a warehouse which was constructed on land leased for a period of ten years on terms which included an obligation to effect improvements on the land. The warehouse cost P840,000 to construct and is being depreciated over the period of the lease on a straight line basis.

4. The unrecovered VAT all relates to revenue expenditure.

**Additional information:**

(i) Details of DML's assets (other than the warehouse) and capital allowances as at 31 December 2014 are:

	Plant P	Vehicles P
Cost	1,790,423	920,644
Allowances to date	(866,093)	(359,972)
Tax value as at 31 December 2014	<u>924,330</u>	<u>560,672</u>

(ii) DML always claims the maximum available reliefs and allowances.

**Required:**

**In respect of Dikeledi Merchants (Pty) Ltd for the year ended 31 December 2015:**

(a) Prepare the capital allowances schedule, clearly identifying the total allowances claimable for the year and the tax values to be carried forward as at 31 December 2015. (6 marks)

(b) Calculate the taxable income.

Note: You should start your computation with the net profit figure of P1,317,826 and include all of the expenditure items referred to in the question, indicating by the use of zero (0) any not requiring adjustment. (7 marks)

(c) Explain the treatment of stock obsolescence for tax purposes. (2 marks)

**(15 marks)**

6 Kabelo Monyake is employed as a salesman by Marley Pharmaceuticals (Pty) Ltd. His earnings and relevant expenditure for the tax year ending 30 June 2016 were as follows:

**Current employment:**

1. A basic salary of P15,000 per month.
2. Commission earnings for the year of P478,622.
3. In February 2015, Kabelo had the highest sales in his group and won an expenses paid weekend in Mauritius for himself and his wife. The prize was valued at P28,000.
4. A car allowance of P120,000 per annum.

Kabelo uses his own car 30% for personal purposes and 70% for business. He bought the car for P280,000 on 1 March 2014, using a car loan from his bank. In the year ending 30 June 2016, he paid bank interest of P28,726 on this car loan.

Kabelo's vehicle costs (other than bank interest) in the year ending 30 June 2016 were as follows:

	P
Petrol	27,271
Tyres	8,704
Repairs	10,826
Insurance	12,063
	<hr/>
	58,864

5. Medical expenses paid by his employer amounting to P42,865.
6. Kabelo contributes P2,000 per month to an approved retirement annuity fund.
7. PAYE amounting to P126,872 was deducted from Kabelo's earnings.

**Other receipts:**

8. A court award of P105,225 in respect of an unfair dismissal claim against a previous employer. PAYE amounting to P26,250 was deducted from the award.
9. Bank interest of P34,060 from which P3,406 withholding tax was deducted.

**Required:**

**(a) In respect of Kabelo Monyake for the tax year ending 30 June 2016:**

**(i) Calculate his taxable income.**

Note: You should indicate by the use of zero (0) any items referred to in the question not resulting in taxable income. (8 marks)

**(ii) Calculate his net tax liability and state by when the tax should be paid.** (3 marks)

**(b)** Marley Pharmaceuticals (Pty) Ltd (MPL) has suggested that instead of paying Kabelo a car allowance, MPL would provide him with an equivalent car for which MPL would pay all of the expenses for both Kabelo's business and private use.

**Required:**

**Advise Kabelo whether he should accept this offer; support your advice with relevant calculations.** (4 marks)

**(15 marks)**

**End of Question Paper**