
Answers

Section B

Marks

1 Fairgrounds Sports Store (Pty) Ltd

(a) Sales output

	P	
Sales per accounts department	1,762,861	0-5
Less: exports	(67,308)	0-5
Less: goods delivered but not invoiced	(73,882)	0-5
Less: sale of saloon car	(35,000)	0-5
	<u>1,586,671</u>	
		<u>2</u>

(b) VAT payable

	P	
Outputs		
Sales (from (a))	1,586,671	
Purchase returns	36,289	0-5
Interest received	0	0-5
Discount received	8,253	0-5
	<u>1,631,213</u>	
Inputs		
Local purchases	107,385	0-5
Imported purchases	0	0-5
Credit notes issued	0	0-5
Salaries and wages	0	0-5
Technical fees paid to a non-resident	0	0-5
Interest on late tax payment	0	0-5
Commercial rent	65,000	0-5
Credit agreement instalment	0	0-5
Repairs to saloon car	13,878	0-5
Purchase of equipment for staff gym	0	0-5
Credit agreement machine	134,175	0-5
	<u>320,438</u>	
Excess of outputs over inputs	<u>1,310,775</u>	
VAT thereon at 12%	157,293	
Less: VAT paid on imported purchases	(56,757)	1
Net VAT payable	<u>100,536</u>	
		<u>8</u>
		<u>10</u>

Tutorial notes

1. The VAT paid on the imported purchases is treated as a deduction from the total VAT payable.
2. The treatment of the credit note must mirror the original invoice which was zero rated since it was an export.
3. Input VAT on the cash price of the machine can be reclaimed in full but the monthly instalment has no VAT impact.
4. The equipment in the staff gym is considered to be 'entertainment' and is therefore a prohibited input.

2 Tapela Supplies (Pty) Ltd

(a) WHT on November 2016 certificate

	P	
Gross certificate inclusive of VAT	603,365	0-5
Less: 12% VAT	(64,646)	0-5
Net amount	<u>538,719</u>	
3% WHT on P538,719	<u>16,162</u>	<u>1</u>
		<u>2</u>

(b) Tax to be withheld from non-residents

	P	
Insurance premiums	0	0-5
Fees for technical advice (P68,903 x 15%)	10,335	0-5
Purchase of goods	0	0-5
Advertising in foreign journals	0	0-5
Interest paid (P57,062 x 15%)	8,559	1
Repayment of loan	0	0-5
Shipping costs	0	0-5
Brokerage (P82,641 x 10%)	8,264	1
Guarantee fee (P25,388 x 15%)	<u>3,808</u>	<u>1</u>
	<u>30,966</u>	<u>6</u>

(c) When withholding tax is payable

Tax should be withheld from payments made to non-residents and paid over to the revenue authorities no later than the 15th of the month following payment.

1

The liability to withhold tax is only triggered on physical payment and not on accrual.

1

210

3 Charles Renson

(a) Net disposal gain or loss

	P	P	
(1) Primetime Property Holdings Ltd Listed on the Botswana Stock Exchange (BSE) and held for more than one year – exempt		0	1
(2) Standard Chartered Bank Listed on the BSE and held for less than one year			
Sale price	427,867		
Cost price	<u>(253,906)</u>		0.5
Less: 25% moveable property allowance		173,961 <u>(43,490)</u>	1
		130,471	
(3) Plot 2783 Mogoditshane			
Sale price	6,500,000		
Original cost – January 2004	(1,750,000)		0.5
Indexation (P1,750,000 x (1751.7/721.3)) – P1,750,000	(2,499,931)		1
Extensions – November 2010	(1,425,000)		0.5
Indexation (P1,425,000 x (1751.7/1304.2)) – P1,425,000	<u>(488,949)</u>		1
		336,120	
		466,591	
(4) Printing machine – exempt		0	1
Less: capital loss brought forward		<u>(167,492)</u>	0.5
Net disposal gain		<u>299,099</u>	<u>7</u>

(b) Farming property

A person who sells farming property can claim as a deduction against the resulting gain any assessed farming losses incurred:	0.5
– in the current tax year	0.5
– and the five preceding tax years.	0.5
The assessed loss must not include any farming capital expenditure.	0.5
	<u>2</u>

Tutorial note: *This is the only exception where a trading loss can be set-off against a capital gain.*

(c) Carry forward of capital loss

A capital loss can be carried forward for one year only.	<u>1</u>
	<u>10</u>

4 Molebatsi Kolobe

(a) Taxable income for the year ended 30 June 2017

	P	
Income from employment		
Basic salary	450,000	0-5
Entertainment expenses reimbursed	0	0-5
Salesman of the year award	15,000	0-5
Commission on sales	42,863	0-5
Reimbursement of travelling expenses	0	0-5
Subsistence allowance	0	0-5
Leave pay encashed	42,750	1
Company provided housing ((P500,000 x 10%) – P19,000)	31,000	1-5
Utility bills	23,344	0-5
	<u>604,957</u>	
Chargeable income from employment	604,957	
Less: employee pension contributions (P450,000 x 3%)	(13,500)	1
	<u>591,457</u>	
Other income		
Sale of private car	0	0-5
Lucky prize draw winnings	0	0-5
	<u>0</u>	
Taxable income	<u>591,457</u>	<u>8</u>

(b) Notwithstanding that the competitor company is offering to engage Molebatsi under a 'contract for services', the tax authorities are likely to argue that he continues to be an employee given:

– he will be granted annual leave which is normally only provided to employees;	1
– he will continue to receive benefits such as company provided housing which are normally only provided to employees.	1
	<u>2</u>
	<u>10</u>

5 Water Construction (Pty) Ltd

(a) Taxable income

Working 1 – Balancing charge

	P	
Original cost	563,820	
Less: rolled over	(85,275)	1
Less: capital allowances	(372,926)	0-5
	<u>105,619</u>	
Sales proceeds	120,000	0-5
Balancing charge	<u>14,381</u>	

Working 2 – Net disposal gain on shares

	P	
Original cost	18,000	1
Sales proceeds	175,000	0-5
	<u>157,000</u>	
Less: 25% moveable property allowance	(39,250)	0-5
Net disposal gains	<u>117,750</u>	

	Note	P	P	Marks
Net profit per accounts			1,026,146	
Add: cost of new contract	1	1,000,000		1
Add: depreciation		372,801		0.5
Add: loss on sale of shares		43,000		0.5
Add: wages and salaries		0		0.5
Add: provision for loss on contracts 2017		480,000		0.5
Add: balancing charge (working 1)		14,381		0.5
			1,910,182	
Less: fair value adjustment		250,000		1
Less: profit on sale of equipment		45,388		0.5
Less: retentions receivable	2	781,052		0.5
Less: provision for loss on contracts 2016		260,000		0.5
Less: capital allowances		428,816		0.5
			(1,765,256)	
			1,171,072	
Net disposal gain (working 2)			117,750	0.5
Taxable income			1,288,822	
				<u>11</u>

Tutorial notes

1. The purchase cost of a contract is of a capital nature and is therefore not deductible.
2. A contract retention only accrues when it is received and it is only at that time that it comes into charge. Whilst there are retentions receivable, they can be deducted from income for tax purposes.

(b) Minimum SAT payment

	P	P	
Tax payable (P1,288,822 x 22%)		283,541	0.5
Less: withholding tax on construction contracts	560,191		0.5
Less: withholding tax on interest received	13,063	(573,254)	0.5
Tax overpaid		(289,713)	

Tax through the withholding tax mechanism has been overpaid and accordingly there is no necessity to pay any SAT.

0.5
2

(c) Tax treatment of retentions

In Botswana gross income comes into charge when it has accrued – i.e. when the taxpayer has a legal right to claim payment of that income. A contract retention is a deduction from a contract payment in order to cater for work not performed by the contractor. Under the terms of the contract, the contractor cannot claim payment of the retention until all work is completed. Accordingly, the retention income only accrues at the time it is paid to the contractor. Until that time the contractor can deduct the retention from gross income for tax purposes.

2
15

6 Linda Malatsi

(a) Chargeable income or loss from Kudu Agencies

	P	P	
Net loss per accounts		(96,836)	
<i>Add:</i> administrative expenses	0		0-5
<i>Add:</i> salaries and wages	0		0-5
<i>Add:</i> drawings Linda Malatsi	360,000		0-5
<i>Add:</i> purchase of shares in Beryls Bank	38,000		0-5
<i>Add:</i> purchase of saloon car	182,000		0-5
<i>Add:</i> loan to son	100,000		0-5
<i>Add:</i> interest paid on working capital loan	0		0-5
<i>Add:</i> VAT penalties	<u>16,728</u>	696,728	0-5
<i>Less:</i> capital allowances on saloon car (P182,000 x 25%)		<u>(45,500)</u>	1
Chargeable income from business		<u>554,392</u>	
			<u>5</u>

(b) Taxable income

		P	
Chargeable income from business (from (a))		554,392	0-5
Chargeable income from dividends		0	0-5
Chargeable income from interest – bank		0	1
Chargeable income from interest – son	(6,750 + 750)	7,500	1
Chargeable income from disposal gains		0	1
Chargeable income from retirement annuity	(247,000 + 54,340)	301,340	1
Car benefit	(10,000 x 75%)	<u>7,500</u>	1
Taxable income		<u>870,732</u>	
			<u>6</u>

Tutorial note: *The sale of the loan account is not subject to tax.*

(c) Tax payable

		P	
Taxable income (from (b))		<u>870,732</u>	
	P	P	
First P144,000		13,050	0-5
Next P726,732 at 25%		<u>181,683</u>	0-5
		194,733	
<i>Less:</i> withholding tax on dividends	0		0-5
<i>Less:</i> withholding tax on bank interest	0		0-5
<i>Less:</i> withholding tax on interest from son	750		0-5
<i>Less:</i> withholding tax on retirement annuity	<u>54,340</u>	<u>(55,090)</u>	0-5
Net tax payable		<u>139,643</u>	
			<u>3</u>

(d) Date by which tax return must be submitted

30 September 2017.		<u>1</u>
		<u>15</u>