

Fundamentals Level – Skills Module

# Taxation (Botswana)

Thursday 7 December 2017



**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



The Association of Chartered  
Certified Accountants

The Botswana Institute of  
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**  
2016/2017 tax year

<b>Resident companies</b>	<b>On taxable income</b>
Standard rate	22%
Manufacturing company rate	15%

**Resident individuals**

P0 – P36,000	P0 +	0%
P36,001 – P72,000	P0 +	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**

P0 – P72,000	P0 +	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**

P0 – P18,000	P0 +	0%
P18,001 – P72,000	P0 +	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>Valued 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 fees	–	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

	<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>	<b>2016</b>
January	1223·2	1320·0	1436·1	1544·3	1611·2	1670·7	1715·4
February	1225·4	1330·2	1440·0	1546·9	1618·7	1664·2	1714·5
March	1234·6	1338·9	1446·5	1555·4	1624·3	1669·8	1721·0
April	1256·2	1359·0	1460·4	1565·6	1637·1	1687·5	1735·9
May	1268·6	1373·6	1480·0	1570·2	1641·0	1690·3	1737·8
June	1285·3	1386·4	1487·3	1573·8	1645·6	1696·8	1741·5
July	1289·7	1380·6	1492·1	1576·7	1647·5	1698·7	1744·3
August	1290·6	1403·4	1496·7	1580·4	1652·1	1701·5	1747·1
September	1297·9	1409·0	1508·9	1584·3	1654·8	1704·2	1751·7
October	1300·6	1415·0	1515·4	1587·9	1656·8	1708·9	1755·2
November	1304·2	1424·0	1530·2	1593·5	1661·4	1709·8	1758·7
December	1309·1	1428·8	1534·8	1598·1	1657·7	1708·9	1760·5

	<b>2017</b>
January	1769·2
February	1772·7
March	
April	
May	
June	
July	
August	
September	
October	
November	
December	

**Section B – ALL SIX questions are compulsory and MUST be attempted**

Please write your answers to all parts of these questions on the lined paper within the Candidate Answer Booklet.

- 1 You are preparing the value added tax (VAT) return of Fairground Sports Store (Pty) Ltd for the period ended 31 October 2016 and have been provided with the following information by the accounts department. All amounts are given exclusive of VAT:

	Notes	P
<b>Income</b>		
Sales	1, 2, 3	1,762,861
Purchase returns		36,289
Interest received		19,628
Discount received		8,253
		<hr/>
		1,827,031
<b>Expenses</b>		
Local purchases		107,385
Imported purchases	4	472,975
Credit notes issued	5	32,269
Salaries and wages		608,447
Technical fees paid to a non-resident		23,572
Interest on late payment of tax		7,289
Rent of commercial premises		65,000
Credit agreement instalment	6	11,240
Repairs to a saloon car		13,878
Purchase of equipment for staff gym		41,849
		<hr/>
		1,383,904

**Notes:**

1. Sales include goods with an invoice value of P67,308 which were exported to a neighbouring country.
2. Sales include goods with a value of P73,882 in respect of which the tax invoice was issued and payment was received after 31 October 2016 despite the goods being delivered to the customer during the period.
3. Sales include the sale of a saloon car for P35,000.
4. The company paid import VAT of P56,757 on 24 November 2016 in respect of the imported purchases.
5. The credit notes issued were in respect of price adjustments relating to exports reported in prior tax periods.
6. The company entered into a credit agreement during the period to purchase a machine with a cash price of P134,175. The first instalment of P11,240 (recorded above) was made during October 2016. However, no other entries in respect of this agreement have been recorded in the figures provided.

**Required:**

- (a) Calculate the amount of Fairground Sports Store (Pty) Ltd's standard rated outputs in respect of sales for the value added tax (VAT) period ended 31 October 2016. (2 marks)
- (b) Calculate the VAT payable or refundable by Fairground Sports Store (Pty) Ltd for the VAT period ended 31 October 2016.

Note: You should indicate by the use of zero (0) any items referred to in the question which have no VAT impact. (8 marks)

**(10 marks)**

- 2** You are approached to provide tax advice to Tapela Supplies (Pty) Ltd in respect of the year ending 31 December 2016.
1. The company entered into a construction contract with Yarley Civils (Pty) Ltd. The certificate for the month of November 2016 amounted to P603,365 inclusive of value added tax (VAT) at 12%.
  2. Tapela Supplies has paid the following amounts to non-residents:

	<b>P</b>
Insurance premiums	36,728
Fees for technical advice	68,903
Purchase of goods	457,829
Advertising in foreign journals	13,828
Interest paid	57,062
Repayment of a loan	100,000
Shipping costs	46,289
Brokerage	82,641
Payment of a guarantee fee	25,388

**Required:**

**In respect of Tapela Supplies (Pty) Ltd for the year ended 31 December 2016:**

**(a) Calculate the tax which should have been withheld on the November 2016 certificate;** (2 marks)

**(b) Calculate the tax which should have been withheld from the payments made to non-residents;**

Note: You should use a zero (0) to indicate if there is no WHT payable. (6 marks)

**(c) State when tax withheld is payable to the revenue authorities.**

Note: You should make specific reference to whether the obligation to withhold is triggered by the payment or merely the accrual of the relevant expense. (2 marks)

**(10 marks)**

**3** Charles Renson sold the following capital assets during the tax year ended 30 June 2017:

- (1) All his shares in Primetime Property Holdings Ltd, a company listed on the Botswana Stock Exchange, for P237,678 on 24 September 2016. The shares had been purchased in March 2012 for P50,000.
- (2) All his shares in Standard Chartered Bank Ltd, a company listed on the Botswana Stock Exchange, for P427,867 on 6 May 2017. The shares had been purchased for P253,906 in August 2016.
- (3) An industrial property situated on Plot 2783 Mogoditshane on 2 September 2016 which was rented to a third party. The land and building had been purchased for P1,750,000 in January 2004 and the sales price was P6,500,000. Extensions to the building were made in November 2010 costing P1,425,000.
- (4) A printing machine, which was leased to a third party, was sold for an amount of P25,000 in January 2017. The machine had originally cost P340,000 and capital allowances amounting to P217,500 had been claimed to date.

You are provided with the further following information:

- (5) Charles Renson has a capital loss brought forward amounting to P167,492.

**Required:**

**In respect of Charles Renson for the tax year ended 30 June 2017:**

- (a) Calculate the net disposal gain or loss;**

Note: You should indicate by the use of a zero (0) any amounts referred to in the question which are not subject to capital gains tax. (7 marks)

- (b) State the special deduction which can be claimed in respect of a disposal of farming property;** (2 marks)

- (c) State for how long a capital loss can be carried forward.** (1 mark)

**(10 marks)**



**4** Molebatsi Kolobe is a salesman with Shield Technologies (Pty) Ltd and received the following amounts from his employer during the year ended 30 June 2017:

- (1) A basic salary of P450,000.
- (2) Reimbursement of entertainment expenses incurred when entertaining new customers of P137,993.
- (3) A P15,000 'Salesman of the year' award.
- (4) P42,863 of commission on sales over P10 million per annum.
- (5) Reimbursement of travelling expenses incurred for business purposes amounting to P12,537.
- (6) Out of town subsistence allowances totalling P32,150 in respect of time spent travelling on business.
- (7) A payment of P42,750 in respect of leave pay cashed in.

**Other information**

- (8) Molebatsi is a member of the company's pension scheme and contributes 3% of his basic salary to the scheme.
- (9) Molebatsi lived in housing provided by Shield Technologies (Pty) Ltd with a rateable value of P500,000 for which he made a contribution payment of P19,000. The company paid utility bills on his behalf amounting to P23,344.

**Other amounts received by Molebatsi during the year**

- (10) P28,500 in respect of the sale of his private car.
- (11) P75,000 being winnings from a lucky prize draw.

**Required:**

**(a) Calculate Molebatsi Kolobe's taxable income for the year ended 30 June 2017.**

**Note:** You should indicate any amounts referred to in the question which are not taxable by the use of a zero (0). (8 marks)

**(b)** Molebatsi has been approached by a competitor company which has offered to engage him under a 'contract for services'. The competitor company has claimed that, if he accepts the offer, Molebatsi will become self-employed and so will not be subject to deduction of tax via Pay As You Earn (PAYE). If he accepts the offer, Molebatsi will receive the same pay and benefits as he currently receives from Shield Technologies (Pty) Ltd as well as 25 days of annual leave.

**Required:**

**Provide TWO reasons why the Botswana Unified Revenue Service (BURS) are likely to argue that Molebatsi will continue to be an employee and subject to PAYE if he accepts the offer from the competitor company.**

(2 marks)

**(10 marks)**

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Question 5 begins on page 16.**

5 The following are the financial results of Water Construction (Pty) Ltd for the year ended 30 September 2016:

	Notes	P
<b>Income</b>		
Construction income	5, 6	18,673,017
Interest received	5	130,630
Fair value adjustment		250,000
Profit on sale of equipment	1	45,388
		<u>19,099,035</u>
<b>Expenses</b>		
Cost of new contract	4	1,000,000
Cost of sales	3	11,214,946
Depreciation of non-current assets		372,801
Loss on sale of shares	2	43,000
Salaries and wages		5,442,142
		<u>18,072,889</u>
Net profit		<u>1,026,146</u>

**Notes**

You are also provided with the following further information:

1. The profit on sale of equipment is made up as follows:

	P
Cost	563,820
Depreciation	<u>(489,208)</u>
	74,612
Sale proceeds	<u>120,000</u>
Profit on sale	<u>45,388</u>

Capital allowances amounting to P372,926 had been claimed at the date of sale. In addition, a claim for rollover relief of P85,275 was made when the equipment was originally purchased.

2. The loss on sale of shares in Waterflows (Pty) Ltd is made up as follows:

	P
Original cost	18,000
Fair value adjustment	<u>200,000</u>
	218,000
Sale proceeds	<u>175,000</u>
Loss on sale	<u>(43,000)</u>

3. Cost of sales includes a provision for loss on contracts. At 30 September 2015, this provision stood at P260,000 and at 30 September 2016 it had increased to P480,000.

4. The company paid P1 million to purchase a new contract from another company.

5. The company suffered the following amounts of withholding tax:

	P
On construction income received	560,191
On interest received	13,063

6. Construction income includes retentions receivable at 30 September 2016 amounting to P781,052.

7. The capital allowance claim for the year amounts to P428,816.

**Required:**

**In respect of Water Construction (Pty) Ltd for the tax year 2016/17:**

**(a) Calculate the taxable income;**

Note: You should start your computation with the net profit figure of P1,026,146 and include all of the items referred to in the question, indicating by the use of zero (0) any not requiring adjustment. (11 marks)

**(b) Calculate the minimum self-assessment tax (SAT) which should be paid (if any);** (2 marks)

**(c) Explain the tax treatment of the retentions receivable included in the construction income.** (2 marks)

**(15 marks)**

- 6 Linda Malatsi owns a business called Kudu Agencies and has presented you with the following results for the year ended 30 June 2017:

	Notes	P	P
<b>Income</b>			
Sales			2,756,156
Cost of sales			<u>(1,428,537)</u>
			1,327,619
<b>Expenses</b>			
Administrative expenses		107,283	
Salaries and wages		592,761	
Drawings – Linda Malatsi		360,000	
Purchase of shares in Beryls Bank Ltd		38,000	
Purchase of a saloon car	1	182,000	
Loan to son		100,000	
Interest paid on working capital loan		27,683	
VAT penalties		<u>16,728</u>	<u>(1,424,455)</u>
Net loss			<u>(96,836)</u>

In addition, Linda received the following income during the year:

		P
Dividends – net	3	34,000
Interest from a bank – net	3	52,425
Interest from her son – net	3	6,750
Proceeds from the sale of a loan account in Magnum Prints (Pty) Ltd	2	485,350
Retirement annuity – net	3	<u>247,000</u>
		<u>825,525</u>

**Notes:**

1. The saloon car was purchased on 1 October 2016 for use in the business by Linda.
2. The sale of the loan account in Magnum Prints (Pty) Ltd took place in February 2017 for the loan's par value. The loan had originally been made to Magnum Prints (Pty) Ltd in August 2004.
3. Linda suffered the following withholding tax on her income:

	P
Dividends	2,550
Interest from bank	5,825
Interest from her son	750
Retirement annuity	<u>54,340</u>
	<u>63,465</u>

**Required:**

**In respect of Linda Malatsi for the tax year 2016/2017:**

**(a) Calculate the chargeable income or loss from the business;**

Note: You should start your computation with the net loss figure of P96,836 and include all of the expense items referred to in the question, indicating by the use of zero (0) any not requiring adjustment. (5 marks)

**(b) Calculate her taxable income from all sources;**

Note: You should indicate any sources of income which are not taxable by the use of a zero (0). (6 marks)

**(c) Calculate her net tax payable;**

(3 marks)

**(d) State the date by which her tax return should be submitted.**

(1 mark)

**(15 marks)**

**End of Question Paper**